

Pag-IBIG Fund: The Partner of the Filipino Worker in Housing Finance

I. Background

The Filipino people has, among its age-old values, the concept of “Bayanihan” – best exemplified by the imagery of several people working in unison to carry a housing unit on their shoulders and eventually settling this on its permanent site. The Philippine Government attempted to transform this image into reality by creating Home Development Mutual Fund or Pag-IBIG Fund. “Pag-ibig” is the Filipino term for “LOVE”.

The Philippines, with a population in the vicinity of 84 million, is an archipelago comprising 7,100 islands situated in Southeast Asia. The country has been beset with the problem of increasing housing needs (backlog + new households), and for the year 2004, the figure was estimated at 908,817 units. Economic housing, which is the universe of Pag-IBIG Fund financed units, comprised 19.4% or 176,310 units.

The National Shelter Program (NSP) of the Philippine government, witnessing the rise of new administrations from the time of former President Ferdinand E. Marcos to the current term of President Gloria M. Arroyo, continues to be the government’s program that aspires to provide adequate housing units to Filipinos, especially the lowest 40% of its populace, or those that have limited or no access to formal housing markets, through the provision of affordable loan packages.

The components of the NSP are marketing, production, finance, and regulation. NSP entrusts unto the hand of Pag-IBIG Fund the provision of housing finance.

Pag-IBIG Fund is a concrete example of the Filipino spirit of “Bayanihan”. By its very name, which stands for “Pagtutulungan sa Kinabukasan: Ikaw, Bangko, Industriya, at Gobyerno”, Pag-IBIG Fund shows the synergistic cooperation among the individual members (Ikaw), the banking industry (Bangko), the housing industry as represented by the developers and the employers themselves as generators of employment (Industriya), and the government (Gobyerno) towards a future in which the vision of a home for every Filipino family is attained.

Created on June 11, 1978 by virtue of Presidential Decree No. 1530, the Home Development Mutual Fund (HDMF) has a two-pronged mandate: generation of savings and provision of shelter for the Filipino workers. Therefore, the HDMF is a provident fund, which

pools together the savings of its members with counterpart contributions from their respective employers, and at the same time a shelter agency, which channels the savings for the long-term financing requirements of housing.

Under PD 1530, Social Security System (SSS) and Government Service Insurance System (GSIS) administered the HDMF's funds from private and government employees, respectively. Contributions were voluntary for government and private employees, but employer counterpart contributions were mandatory. On June 4, 1979, Executive Order No. 538 further strengthened the stability and viability of the two funds and merged them into what is now known as Pag-IBIG Fund.

On December 14, 1980, Presidential Decree No. 1752 amended PD1530, making Pag-IBIG Fund a public independent corporation. Pag-IBIG Fund's rule-making power was vested on its own Board of Trustees. Pag-IBIG Fund membership became mandatory for all SSS and GSIS covered employees, thereby broadening its base for greater uniformity and universality. The amendment sought to hasten the generation and mobilization of savings towards a more viable, affordable, and adequate housing credit system.

In 1987, then President Corazon C. Aquino signed Executive Order No. 90, creating the Unified Home Lending Program (UHLP), which integrates the respective homelending programs of the SSS, GSIS, and Pag-IBIG Fund. The same directive established the Housing and Urban Development Coordinating Council (HUDCC) as the sole authority and policy-making body on housing, tasked with identifying and redefining the mandates of housing agencies, as well as rationalizing the funding sources and mechanism for homebuyers' financing.

Pag-IBIG Fund was designated, along with SSS and GSIS, as a support agency that was tasked to develop savings schemes for home acquisition by private and government employees. The provident aspect of Pag-IBIG Fund serves as a savings scheme for its members.

Pag-IBIG Fund catered to a greater number of members when it achieved regionalization and decentralization in 1988. By 1989, Pag-IBIG Fund already had six institutional thrusts: housing, savings, retirement, emergency loan, social housing, and joint venture.

In 1991, Pag-IBIG Fund expanded its membership by reaching the informal sector through the cooperatives and trade associations of self-employed sectors with informal incomes.

The Pag-IBIG Filipino Overseas Workers Program was launched as a response to the provident savings and housing requirements of Filipinos working outside the Philippines.

On June 17, 1994, then President Fidel V. Ramos signed Republic Act No. 7742, otherwise known as the Pag-IBIG Universal Coverage Law, reverting the nature of Pag-IBIG Fund membership to mandatory.

Pag-IBIG Fund's infusion of much-needed liquidity into the UHLP in 1996 highlighted its role in the Social Reform Agenda (SRA), the centerpiece of the government under then President Ramos. The SRA aimed to alleviate poverty, in light of the effects of housing on the productive performance of the family, and its strong influence on the state and development of society.

Pag-IBIG Fund's outstanding performance in 1996 heightened awareness among government policymakers that Pag-IBIG Fund can be a moving force in the attainment of the country's development goals.

Concerns regarding the need for a viable and sustainable source of housing finance remained foremost in the agenda of the government's policymakers. The increased demand for housing led to concomitant pressures on Pag-IBIG Fund's financial resources, considering that it needed to balance funding commitments, both as a provident and as a housing fund. Funds generation became a significant corporate undertaking in 1997 as Pag-IBIG Fund tapped both internal and external sources of funds.

When Pag-IBIG Fund assumed the role as sole lending window of the UHLP, it became clear that the institution could no longer operate exclusively from internally-generated funds. Initiatives were undertaken to leverage resources to increase Pag-IBIG Fund's capability to meet the demand for housing finance.

Pag-IBIG Fund's securitization program made a headstart with the launching of the initial tranche of the PhP1.0 Billion mortgage backed securities (MBS) for 1997. On February 14, 1997, the private financial community – banks, investment houses, insurance companies, pension funds – witnessed Pag-IBIG Fund's entry into the capital market.

Through all these developments, Pag-IBIG Fund maintained a delicate balance between its twin, inseparable mandates: providing affordable housing finance and maintaining the

viability and profitability of the provident fund. The integrity of the members' savings is the bottomline, the ultimate test that would determine the expediency and propriety of the management's decision on policies and programs.

To generate funds for housing finance, Pag-IBIG Fund issued PhP2.0 Billion worth of HDMF bonds with the Bankers Association of the Philippines (BAP) as financial advisor.

As of 2004, 53% of Pag-IBIG membership comes from the National Capital Region, the highly-urbanized area of the country. The remaining 47% are distributed among the three (3) main areas of Luzon, Bicol-Visayas, and Mindanao. With the government's thrust of urban decongestion, the growing membership in the regions outside Metropolitan Manila shows an eventual development of mini-urban areas in the previously rural provinces. As of June 2006, 26 years after its institutionalization, Pag-IBIG Fund boasts of over 6.3 million members, almost 134,000 of which are working outside the Philippines.

Years after its creation, Pag-IBIG Fund, the Filipino workers' fund, remains formidable as the country's provident fund and premier housing fund. And with the growing urbanization of the countryside, Pag-IBIG Fund continues to be a key player in housing finance, the Filipino workers' anchor of hope as they are magnetized by the promises of a better life in the city.

II. Description of the initiative or project

Pag-IBIG Fund as an organization is one big project, lasting as long as there are members to serve and housing projects to be developed. It has proven to be a sustainable organization in the Philippines. Its silver year, 2005, turned out to be a banner year as the Fund posted a record high net income of PhP7.38 Billion. The Fund gave out PhP5.54 Billion as total dividends to its members, 5% more than mandated by its Charter. As of 2005, Pag-IBIG Fund's total assets have grown to PhP178.30 Billion.

In its 25 years, various individuals and institutions have recognized the efforts of Pag-IBIG Fund. The following are among the citations given to the Fund:

1. ***Most Efficient among the Top GOCCs in 1990*** – named by Business World Research in 1990.
2. ***Center of Excellence in Public Service Award*** – jointly conferred by the Civil Service Commission and Senator Blas Ople of the Senate Committee on Civil Service in 1994.

3. **+50 Net Rating** – garnered in a Social Weather Station survey in September 1997, the highest among government servicing institutions.
4. **12th Rank Among the Top 1,000 Corporations in the Philippines** – attained in 2003 by registering a net income of PhP5.26 Billion, according to the Securities and Exchange Commission as reported by the Business World's publication of the top 1,000 Corporations.
5. **12th Rank Among the Most Profitable Corporations** – attained in 2004 by posting a record net income of PhP6.45 Billion, further elevating it as one of the strongest financial institutions in the Philippines.
6. **Role of Pag-IBIG Fund in providing a sustainable housing finance to Filipino workers** – cited by UN-HABITAT and the European Federation of Building Societies at the Joint Congress of held in Berlin, Germany on September 22-24, 2004.
7. **Anvil Awards for the "Tapat sa Pag-IBIG" (loyal to Pag-IBIG) campaign under the government service category** – won by Pag-IBIG Fund twice in a row in 2004 and 2005 for its collection campaign. The campaign resulted in a 17% increase in collection, exceeding the PhP40 Billion mark for the first time.
8. **AAA- Rating** – accorded on September 2005 by Philratings, the premier rating institute in the country. The rating is the highest one given to any government agency and is higher than almost all of the private banks in the Philippines.
9. **Five-star rating or Grade A** – given by the Department of Energy in 2006 for the Fund's acquiring a total score of 94% for complying with energy measures directed by the government to reduce the consumption of electricity and fuel.

The awards and recognitions further fuel Pag-IBIG Fund to focus on its twin mandates of provident savings and housing finance.

Under its mandate to provide financial assistance to meet housing needs, Pag-IBIG Fund offers two main types of financing: 1) Retail Financing (mortgage financing and contract-to-sell financing) for individual end-users, and 2) Institutional Financing for developers and identified groups.

Under **Retail Financing**, Pag-IBIG Fund has three programs:

- 1) **Expanded Housing Loan Program (EHLN)** may be used to finance any one or a combination of the following: 1) purchase of a fully developed lot within a residential area; 2) purchase of a lot and construction of a residential unit thereon; 3) purchase of a residential house

and lot, townhouse, or condominium unit inclusive of a parking slot; 4) construction or completion of a residential unit on a lot owned by the member-borrower; 5) home improvement; or 6) refinancing of an existing mortgage loan with an institution acceptable to Pag-IBIG Fund. To provide an incentive for prompt payment, Pag-IBIG Fund applies the two-tiered interest rate and shall charge a lower interest on housing loans paid on time.

2. The ***Rent-to-Own Program*** aims to institute a mechanism through which Pag-IBIG Fund shall further expedite the recovery of its investments in non-performing mortgage loans, and to provide Pag-IBIG members, whose current income cannot sustain the monthly amortization on a Pag-IBIG housing loan, with a facility that will provide affordable housing, and ensure home ownership by the time they become eligible for such loan.

3. The ***Housing Loan Restructuring & Penalty Condonation Program*** may be used by Pag-IBIG housing loan borrowers who wish to restructure their accounts to update or fully pay delinquent accounts, to shorten or lengthen the term of the housing loan, or to avail of the two interest rate structure.

To qualify for a Pag-IBIG housing loan, a borrower must be a member under the Pag-IBIG I, Pag-IBIG II, or Pag-IBIG Overseas Program for at least twenty-four (24) months as evidenced by the remittance of at least twenty-four (24) monthly contributions at the time of loan application; not more than sixty-five (65) years old at loan maturity and must be insurable; has the legal capacity to acquire and encumber real property; has passed satisfactory background/credit and employment/business checks of the developer and Pag-IBIG Fund; has no outstanding Pag-IBIG housing loan, either as a principal borrower or co-borrower; and has no outstanding Pag-IBIG multipurpose loan in arrears at the time of loan application.

Pag-IBIG Fund has the following programs under **Institutional Financing**:

1. The ***Developmental Loan Program (DLP)*** seeks to create additional housing inventories through the provision of developmental financing at easier terms and lower rates to developers/proponents of housing projects.

2. The ***Program for the Development of Medium/High-Rise Condominium Building (MHRB) Projects*** aims to provide a ready inventory of condominium units for sale at more affordable prices to eligible Pag-IBIG members in the Metro Manila area and highly urbanized cities.

3. The ***Pag-IBIG City Program*** aims to provide a ready inventory of completed housing units in a project to be known as a Pag-IBIG City, which shall be available for sale at more affordable prices to Pag-IBIG members, who shall likewise be assured that the project meets the standards of the Pag-IBIG Fund as to land development and house construction.
4. The ***Credit Facility for Private Developers*** aims to provide a liquidity mechanism for private developers to enable them to continue developing housing projects pending the take-out of delivered and complete housing loan applications.
5. The ***Group Land Acquisition and Development Program (GLAD) Program*** aims to provide financial assistance to organized groups of formally-employed Pag-IBIG Fund members for the acquisition and development of rawland or partially developed land, which shall serve as the site of their housing units.
6. The ***Purchase of Housing Receivables*** aims to provide developers with a liquidity mechanism through the purchase by Pag-IBIG Fund of their receivables from housing loans to enable them to continue developing housing projects.
7. The ***Funding Commitment Line (FCL) covered by Domestic Letter of Credit*** aims to provide assurance to the developer of the availability of funds to cover deliveries of completed condominium units/house and lot packages in accordance with a delivery schedule.
8. The ***Pag-IBIG Homes Direct Financing Program*** has guidelines that cover the development and construction of low-cost housing units in Metro Manila and highly urbanized cities, and socialized housing units in the provinces by Pag-IBIG Fund.

III. Main Partners

As mentioned earlier, Pag-IBIG Fund is an example of a synergistic organization, whose stakeholders have equal roles in the success of its various projects and services. The Filipino workers are the Fund's primary partners, for they form the core of Pag-IBIG Fund. Backing them up are their employers and the banking industry for financial sourcing, and the developers and other players in the housing industry for shelter projects and development. The government, through its National Shelter Program, provides the framework around which the programs of the Fund are developed. Gelling all these players together are the Fund's officers and employees

who exercise caution and practice excellence and efficiency in managing the workers' fund and in providing the services to the members.

IV. Impact

As of June 2006, Pag-IBIG Fund has awarded 1,623,059 individuals their provident savings amounting to PhP38.551 Billion. These individuals have either retired or opted to get their savings from the Fund for various reasons.

As of the same period, Pag-IBIG Fund has serviced a total of 594,401 individual borrowers, for a total loan value of PhP125.289 Billion and a total number of 525,395 housing units. The number of units does not necessarily equal the number of borrowers, as two or more borrowers may tack their loan entitlement to acquire a single unit.

For institutional financing, Pag-IBIG Fund has given out a total credit line availment of PhP22.242 Billion for 171,996 units to institutions as represented by developers and identified groups.

V. Sustainability

A lot of Filipino workers consider Pag-IBIG Fund as their stable partner in life, as they realize their dreams of owning their homes and living satisfactory lives. The numbers show that Pag-IBIG Fund is a sustainable organization, and the Fund, through its officers and employees, make it a point to maintain it as such through efficient fund management and excellent member services.

VI. Transferability and Upscaling

The concept of Pag-IBIG Fund as a cooperative financed by the workers' funds is actually a nationwide version of the usual cooperative created within companies or local government units. Its success depends on several factors, among which are the member-workers' trust in the Fund, and the Fund officers and employees' efficient management of the members' fund. With the rising number of Filipinos working overseas, Pag-IBIG Fund has extended its reach to connect with these workers, further enhancing the Fund from a national agency to a global one.

VII. Innovation

Pag-IBIG Fund continues to improve its services for its members. The latest innovation is the New Housing Loan Program, which created new loan brackets, charging lower interest rates at longer loan periods. While being competitive with the other banks in the Philippines, Pag-IBIG Fund, through the updated loan program, further strengthens its role as enabler for the Filipino workers, achieving its vision of being the premier and globally-competitive provident financial institution in the country.

VIII. Recognition of the initiative

Pag-IBIG Fund and its programs and achievements are constantly being featured in the Philippines' major broadsheets and magazines, among which are the Philippine Daily Inquirer, the Philippine Star, the Manila Bulletin, the Business World, and the Free Press Magazine

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