

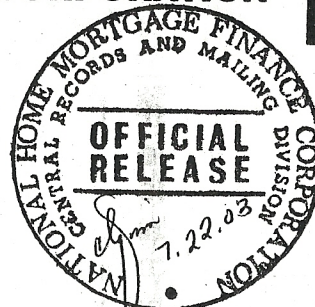
NATIONAL HOME MORTGAGE FINANCE CORPORATION



CORPORATE CIRCULAR NO. CMP-029

15 July 2003

Series of 2003



TO: ALL CONCERNED

SUBJECT: **PERFORMANCE HOME WARRANTY PROGRAM
(PHWP) FOR THE COMMUNITY MORTGAGE
PROGRAM**

In order to fasttrack further the processing and take-out of projects under the Community Mortgage Program, a Performance Home Warranty Program (PHWP) for CMP is hereby adopted, pursuant to NHMFC Board resolution No. 3235, series of 2002.

Under the PHWP system, a Warrantor, which refers to any government or private or warranty company with proven financial capability, will put up a warranty equivalent to ten percent (10%) of the approved CMP loan.

The Performance Warranty, which will be applicable only to on-site CMP projects, covers a period of 18 months and would require an undertaking for submission after take-out of all deferred project/community-related documents.

Moreover, under the PHWP, conduct of a background investigation of the Community Association is waived and loan examination deferred. Hence, only the site/technical inspection and appraisal and mortgage examination processes and pertinent documents related thereto serve as requirements prior to project enrollment, issuance of Letter Guaranty and take-out/release of loan proceeds.

In addition to the warranted documentary requirements the PHWP also covers loan arrears of the Community Association. This is equivalent to 50% of the total warranty. In order not to call on the warranty concerning arrears, the collection efficiency ratio of the project/CA during the warranty period must not fall below 90%.

The specific guidelines for the implementation of the Performance Home Warranty Program are presented as follows:

SECTION 1. OBJECTIVES – These guidelines are intended to hasten the process of accreditation/enrolment and speedy take out of projects under the Community Mortgage Program (CMP) and demonstrate alternative procedures that will accelerate the CMP loan processing.

SECTION 2. SCOPE – These guidelines shall apply to Community Mortgage Program (CMP) projects that carry performance home warranty that will warrant the performance of obligations by the originators and the endorsing institution such as: submission of deferred CMP related documents and ensuring the attainment of a minimum of 90% collection efficiency ratio within the period of eighteen (18) months from date of take-out.

SECTION 3. DEFINITION OF TERMS – As used herein the following words and phrases shall have the following meaning/definitions:

- 3.1 *Community Mortgage Program* – refers to a mortgage –financing program of NHMFC, which assists legally organized associations of underprivileged and homeless citizens to purchase and develop a tract of land under the concept of community ownership. The primary objective of the program is to assist the residents of blighted or depressed areas to own the lots they occupy, or where they choose to relocate to, and eventually improve their neighborhood and homes to the extent of their affordability.
- 3.2 *Performance Warranty* – refers to an undertaking to cover the performance of an obligation such as: submission of all deferred community-related documents and maintaining a minimum of ninety percent (90%) collection efficiency ratio within 18 months from date of take-out. Payment for calls on performance warranty shall be drawn from the warranty fund equivalent to 10% of the principal amount granted to the project. These documents include Subdivision Plan/Schematic Plan/Preliminary Approval and Locational Clearance (PALC), masterlist of beneficiaries and loan apportionment, Lease Purchase Agreement, Proof of Income and birth date.
- 3.3 *Warrantor* – refers to any government or private warranty company that will warrant the payment of calls equivalent to 10% of the principal amount granted to the CMP project as a result of non-submission of essential documentary requirements listed in 3.2 and failure to maintain a minimum of 90% collection efficiency ratio within 18 months after take-out.
- 3.4 *Warranty fund* – refers to the amount to be set aside by the warrantor to cover calls on the warranty equivalent to 10% of the principal amount granted to the CMP project. The 10% warranty shall be held in escrow through a trustee bank.
- 3.5 *Originator* – refers to an organization that shall assist the Community Association (CA) to get organized and registered with the appropriate government agency, document the loan and mortgage, assist the CA in the negotiation with the landowner for the purchase of the property and act as the creditor-mortgagee, then assign the rights to the loan and the mortgage to NHMFC

SECTION 4. RESPONSIBILITIES OF AGENCIES/ ENTITIES/ INDIVIDUALS INVOLVED - The following agencies shall be involved in the implementation of this program:

- 4.1 *Originator* – shall be responsible for the screening of CMP projects prior to endorsement to NHMFC and warrantor, undertaking of background investigation, loan examination, documents validation and ensuring submission of deferred CMP documents and maintaining collection efficiency ratio of the project at a minimum of 90% within 18 months from date of take-out.
- 4.2 *National Home Mortgage Finance Corporation* – shall make available its lending facility for CMP in accordance with the provisions of these implementing guidelines.
- 4.3 *Private/Government Warrantor* – shall guarantee performance of the required submission of deferred document and payment of required amortizations equivalent to 10% of the principal amount granted to CMP project. In case of failure of the originator to submit all deferred community-related documents and the community association is unable to maintain a minimum of 90% collection efficiency ratio within 18 months from date of take-out, the NHMFC shall call on the corresponding warranty thereof.
- 4.4 *Indorsing Entity* – which pertains to any private entities, NGO's or LGU's, shall ensure and certify that the project and community association strictly comply with the requirements of the Community Mortgage Program (CMP) and endorse the same to the warrantor and NHMFC. In case the project/Association and the originator may not be able to fulfil the delivery and requirements of the CMP, the delivery and take-out of the projects of the indorsing entity shall be held in abeyance
- 4.5 *Landowner* – shall issue a letter of intent sell to the community associations.
- 4.6 *Beneficiaries* – shall assist the originator in the gathering of essential documentary requirements required by both the warrantor and NHMFC.

SECTION 5. GENERAL GUIDELINES AND METHODOLOGY

- 5.1 The Originator shall assist the community association in negotiating with the landowner for the acquisition of land. In addition, the originator shall warrant the undertaking of background investigation of beneficiaries, loan examination and validation of CMP documents and ensuring submission of deferred community related documents and maintaining a minimum of 90% collection efficiency ratio within 18 months from date of take out.
- 5.2 The indorsing institution shall assist the originator or community association in the enrolment of the project to the warrantor.
- 5.3 The warrantor, upon receipt and approval of application for performance home warranty by the landowner or community association, will warrant the undertaking of the following obligations:
 1. Ensure submission of all community/project-related documents within 18 months after take-out. The indorsing institution together with the Originator, Community Associations and the Warrantor, jointly and severally warrant

the submission within eighteen months from date of take-out of the following documentary requirements:

- a. Preliminary Approval of Locational Clearance/ Schematic Plan/Subdivision Plan;
 - b. Lease Purchase Agreement between CA and individual members; and
 - c. Certificate of Employment and Compensation and Proof of Income, birth date of member-beneficiaries
2. Maintain a minimum 90% collection efficiency ratio within 18 months from date of take-out.
- 5.4 The warrantor shall set aside amount equivalent to 10% of the principal amount granted to the project to cover the warranty for the submission of deferred community related documents and maintaining a minimum 90% collection efficiency ratio within 18 months from date of take-out.
- 5.5 The indorsing entity shall endorse the CMP project and community associations under the warranty system to NHMFC for review and approval.
- 5.6 Upon receipt of CMP application and performance home warranty, NHMFC shall review, evaluate, approve and release payment to the landowner. NHMFC shall undertake site inspection and mortgage examination in the review of CMP applications submitted by the originator. Background investigation for the issuance of Purchase Commitment Line shall be waived and loan examination for a Letter of Guaranty shall be deferred for all projects with warranties.
- 5.7 Upon submission of complete documentary requirements, NHMFC shall issue the following in accordance with the herein prescribed processing time.
- *Purchase Commitment Line* – within thirty (30) calendar days from date of application.
 - *Letter of Guaranty* – within thirty (30) calendar days from date of delivery of complete mortgage documents of accredited project.
 - *Take-Out Proceeds* – within fifteen (15) calendar days upon compliance and submission of LOG documents.
- 5.8 The Pool may allow the community association to enroll in a group Mortgage Redemption Insurance (MRI) within 18 months from date of take-out with the assumption that all listed beneficiaries qualify for a 25 year-term and with equal loan apportionment, or 19th month leased or submission of final masterlist with lot allocation loan apportionment and age, to effect the necessary adjustment.
- 5.9 The performance home warranty of the warrantor shall be in full force for a maximum period of eighteen months (18) from loan take-out. All warranted documentary requirements may be submitted partially or independently of each other within the 18-month period. Failure to submit the documentary

requirements within the 18 month period shall mean forfeiture of the equivalent proportion of the warranty corresponding to the amount of undelivered documentary requirements as provided for in section 5.10 below.

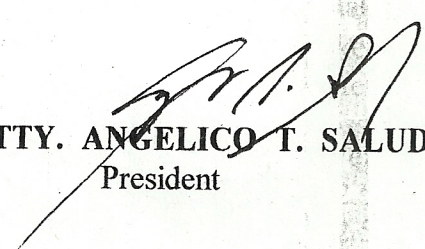
- 5.10 Fifty percent of the 10% of the principal amount granted to CMP project shall be allocated for performance warranty for submission of deferred community related documents and the remaining 50% to cover arrearages/default. The schedule of submission of deferred documents from date of take out and the assigned weights are as follows:

A.	Documents	50%	
		Schedule	Weight
	Masterlist	15 mos.	12.5%
	PALC/Subd. Plan	18 mos.	12.5%
	Schematic Plan	9 mos.	12.5%
	Lease Purchase Agreement	15 mos.	12.5%
B.	Arrears	50%	
	(Maintenance of at least 90% Collection Efficiency Ratio)		

- 5.11 In the event that the originator and the association fail to submit the warranted documents and maintain the required collection efficiency ratio within the warranty period, the originator may be suspended and its enrolled/accredited projects cancelled. The community association/project will be endorsed to another accredited originator acceptable to NHMFC or the loan may be considered due and demandable. Moreover, the origination privileges of the originator may be stopped depending on the gravity of the offense committed.

SECTION 6. HOLD OUT – A hold out of the loan proceeds equivalent to 5% of the loan amount shall be enforced until the review of the masterlist, loan apportionment, borrowers' income/compensation and birth date shall have been conducted by NHMFC. The review shall in no case be beyond 15 calendar days after submission of the warranted documents for loan examination.

These implementing guidelines of the CMP Performance Home Warranty Program shall take effect immediately.


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