

Republic of the Philippines  
HOUSE OF REPRESENTATIVES  
Quezon City

SEVENTEENTH CONGRESS  
First Regular Session

HOUSE BILL NO. **4834**



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**Introduced by Honorable Michael L. Romero and Enrico A. Pineda**

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### **EXPLANATORY NOTE**

The state shall provide the option to develop mortgage-backed securitization (MBS) to strengthen the private securities market and the capital market. So far, the Philippine mortgage loans-to-GDP ratio is only about ten (10%) percent, which is considered small based on standards of existing mortgage systems. In advanced economies, housing mortgage depth is between thirty (30) and seventy five (75%) percent. This Policy Note discusses the role of the National Home Mortgage Finance Corporation (NHMFC) in developing securitization in the country.

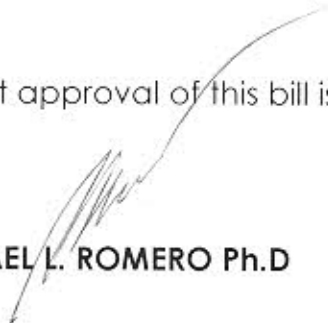
The NHMFC is the major government corporation created to operate as a secondary mortgage institution but this mandate has not been fully implemented in the past 30 years as NHMFC operations have been diverted to loan origination. With the approval of the Securitization Act of 2004 and improvements in the financial sector, opportunities to engage in securitization have opened up.

The NHMFC has taken this opportunity to undertake securitization as a strategy to expand home finance. The NHMFC was created in 1977 by virtue of Presidential Decree 1267 that gave it the mandate to develop and operate a secondary market for home mortgages.

This House Bill seeks to promote home finance securitization. To foster the mandate of buying home mortgages originating from private financial

institutions and eventually selling them to the public as Housing Participation Certificates.

Earnest approval of this bill is hereby requested.



MICHAEL L. ROMERO Ph.D



ENRICO A. PINEDA

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**AN ACT**

**TO PROVIDE ADDITIONAL CAPITALIZATION TO THE NATIONAL  
HOME MORTGAGE FINANCE CORPORATION (NHMFC), TO  
RATIONALIZE ITS FUNCTIONS, AND FOR OTHER PURPOSES**

Be it enacted by the Senate and House of Representatives in Congress  
Assembled:

**SECTION 1. Declaration of Policy** – It shall be the policy of the state to provide an efficient Framework for a good securitization process. (*Securitization is the process of legally isolating existing asset pools or future-generated assets away from the company where the receivables originate*).

The state shall promote the equity capital infusion necessary for the NHMFC to undertake and grow its business. The funds will be used to meet start-up costs and operational activities. Initial capitalization requirement is usually substantial given the role of the central refinancing platform.

The state shall promote an ideal and liquidity facility, that would be a stand-alone institution but its long-term future should be with the private sector, that is, future funding should be raised through the market.

**SECTION 2. Implementing Rules and Regulations** – The key factors for the National Home Mortgage Finance Corporation (NHMFC) to function efficiently are:

- (a) initial capital;
- (b) extraction rate; and
- (c) turnover rate.

The state shall provide stricter risk management for banks and financial institutions and the need to address the housing gap of nearly three million **(3,000,000)** units annually, strategies that will provide long-term funds and expand home finance specifically to the low- and moderate-income households are essential to ensure the sustainability of housing finance.

**SECTION 3. Funding** - The state shall hereby provide an authorize capitalization of Two billion pesos **(P2,000,000,000.00)** to promote urgent related measures to modernize the home financing securitization process. The Authority is hereby authorized to re-align its appropriations, along with its supplemental and additional funding in the current year of the date of the effectivity of this Act to conform with its mandate and requirements.

**SECTION 4. Continuing Appropriation.** - The Department of Budget and Management (DBM) is hereby mandated to include annually in the next five **(5) years**, in the President's Program of expenditures for submission to Congress, and

release, an amount of Five hundred million pesos (**₱500,000,000.00**) for the implementation of this Act.

**SECTION 5. Extraction Rate** – The state shall provide the necessary amount or value that has been generated from a securitization transaction less and all transaction or friction costs. *(These are the funds that can be readily utilized for future/subsequent securitizations. Extraction rate is not the same as recovery rate as this fund grows over time and ensures sustainability in housing finance).*

The extraction rate is affected by:

- (1) the supply of securitizable accounts (or the asset pool);
- (2) the quality of the asset pool/accounts; and
- (3) the creation/availability of investors, particularly the development of a professional market for subordinate tranches.

**SECTION 6. Turnover Rate** – The NHMFC shall provide the ability to use its securitized instruments or its operations as a support mechanism for financial capital to ensure continuous liquidity in the market *(for the investing public).*

This necessitates the existence or development of the following:

- (1) faster due diligence processes *(this includes the presence of standardized and simplified forms for borrowers, originators, and lending institutions)* and
- (2) streamlined review and due diligence processes for the lending institutions. The aforementioned measures would ensure the quality of the assets/mortgages originated and included in the asset pool for securitization.

The state shall promote other processes that are essential to include the sharing of credit files, and standardization and sharing of valuation parameters/standards and data.

**SECTION 7. Periodic Reports** - The NHMFC shall submit periodic reports on its findings and make recommendations on actions to be taken by Congress and Senate and the appropriate department, and in order to carry out the objectives and mandates of this Act.

**SECTION 8. Automatic Review** - Every three **(3) years** after the effectivity of this Act, an independent review panel composed of experts to be appointed by the President shall review the policies and programs in the National Home Mortgage Finance Corporation and shall make recommendations, based on its findings, to the President and to both Houses of Congress.

**SECTION 9. Repealing Clause.** All laws, executive orders, issuances, rules and regulations inconsistent with this Act are hereby amended, repealed or modified accordingly.

**SECTION 10. Separability Clause.** If, for any reason or reasons, any portion or provision of this Act shall be held unconstitutional or invalid, the remaining provisions not affected thereby shall continue to be in full force and effect.

**SECTION 11. Effectivity Clause.** This Act shall take effect fifteen (15) days after its publication in any newspaper of general circulation.

Approved,