

# **HOUSING FINANCE: The Pag-IBIG Fund Experience**

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## **1.0 Introduction**

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. A lot of our artists have rendered this picture of synergy in their paintings, drawings, sculptures, and other forms of art. The Philippine Government has gone further and 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 full meaning of “Pag-IBIG” as an acronym will be explained in this paper.

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 is estimated at 908,817 units. Economic housing, which is the universe of Pag-IBIG Fund financed units, comprises 19.4% or 176,310 units. For the first four months of 2004, Pag-IBIG Fund has already provided financing for 20,565 units. If the trend continues, the year end figure stands at 61,695 units. Translated into pesos, the loan value of 20,565 units is PhP5.88 Billion; thus, the 61,695 units would need PhP17.64 Billion.

Quite a tall order for Pag-IBIG Fund to fill.

This paper will discuss how it will try to answer this challenge. This paper further aims to show the growth of Pag-IBIG Fund, which is a realization of “Bayanihan” itself, as a player in the National Shelter Program (NSP) of the government and key provider of housing finance; and to share its experiences with the international community, and in the process eliciting possible actions or solutions to its current thrust towards tax exemption, thereby generating additional funds for its programs.

## **2.0 The National Shelter Program: Planning of Philippine Housing**

The NSP, witnessing the rise of new administrations from the time of former President Ferdinand E. Marcos to the current term of President Gloria Macapagal 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.

At the time of the NSP's conceptualization during the Marcos regime in the latter part of 1970s, the government recognized that intervention of pure government budget allocation would only produce results similar to those in the past with no substantial reduction in housing shortage. The combined efforts of the government and the private sectors were required and it became the government's task, therefore, to induce private sector participation in solving the shelter concern.

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.

The NSP was founded on three basic principles: 1) reliance on the initiative and capability of beneficiaries to solve their housing problem with minimum assistance from the government; 2) the private sector as the principal player in providing decent and affordable housing; and 3) the government as enabler, facilitator, and catalyst in the housing market, while focusing assistance to families within the poverty line.

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 Social Security System (SSS), Government Service Insurance System (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.

Under the UHLP, the National Home Mortgage Finance Corporation (NHMFC) acted as the lead agency, accrediting and extending funding commitment to financial institutions and developers who act as loan originators. Pag-IBIG Fund, along with the SSS and GSIS, acted as funding agencies with a PhP250M initial commitment to the program, for lending to their members through the UHLP.

However, the key players in the UHLP did not perform their work well. The NHMFC failed to deliver its mandate to develop a secondary mortgage market which would have provided the safety net for a steady flow of fund sources. In the process, SSS and GSIS stopped funneling their funds for housing to NHMFC.

During the first quarter of 1996, Pag-IBIG Fund was called upon to bail out the NHMFC through the infusion of PhP7.945B into the UHLP. This restored the trapped developers' liquidity, and prevented the imminent collapse of the housing industry, giving it a new wind. The fund infusion enabled 35,460 Filipinos to fulfill their dream to be homeowners.

By the beginning of the third quarter of the same year, an inter-agency agreement among the HUDCC, Department of Finance (DOF), Department of Budget and Management (DBM), SSS, GSIS, NHMFC, and Home Insurance Guaranty Corporation (HIGC) designated Pag-IBIG Fund to take over the role of NHMFC as primary conduit for the UHLP loans.

Pag-IBIG Fund took on its additional responsibility without missing a beat. This instance has showcased Pag-IBIG Fund's capability to provide housing finance.

### **3.0 The Pag-IBIG Fund: Builder of Philippine Housing**

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, the banking industry, the housing industry as represented by the developers and the employers themselves as generators of employment, and the government towards a future in which its vision – that of a home for every Filipino family – is attained.

#### *A Story of Growth Strengthened by Challenges*

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.

As an idea, the HDMF means a democratization of home ownership opportunities not through welfarism but by way of self-help. It is premised on a new perception that housing is productive and not consumptive. The HDMF is created in recognition of the inter-weaving relationship of housing and savings. Its conceptualization and subsequent crystallization into the national provident fund that it is now, underscores this relationship.

Under PD 1530, SSS and GSIS administered the HDMF's funds from private and government employees, respectively. On March 1, 1979, Executive Order No. 527 transferred the administration of the HDMF to NHMFC, one of the operating agencies of the then Ministry of Human Settlements. 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.

Under the NHMFC administration, Pag-IBIG Fund membership achieved 20% of its 1981 target of 1.9 million members, despite its voluntary coverage. Actuarial studies, however, strongly suggested that for a nationwide mass-based provident fund for housing to be truly effective and economic, given a membership profile of small savers contributing small amounts and given a picture of a large percentage of the country's wage-earners being dissavers, a purely voluntary system will simply not work. There was a necessary change in the complexion of Pag-IBIG Fund to make it a better instrument of the NSP.

On December 14, 1980, Presidential Decree No. 1752 amended PD1530, making Pag-IBIG Fund a public corporation independent from NHMFC. 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, however, Pag-IBIG Fund found itself back to its original state, in the wake of EO 90, directed by then President Aquino. This same directive created HUDCC as the umbrella entity under whose aegis are the key shelter agencies. These are: National Housing Authority (NHA), which was mandated to be the sole government agency engaged in direct shelter production; NHMFC, which was mandated to be the major government home mortgage institution whose initial main function was to operate a viable home mortgage market utilizing long-term funds from SSS, GSIS, and Pag-IBIG Fund and whose other role was the development of a system that would attract private institutional funds into long-term housing mortgages; Housing and Land Use Regulatory Board (HLURB), which is the sole regulatory body for housing and land development, although presently, some of its functions have been devolved to local government units; and HIGC, which was charged to implement a viable system of guarantees, loan insurance and other incentives - but this agency later on became Home Guaranty Corporation (HGC) and got attached to the Department of Finance.

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. For the next eight years, Pag-IBIG Fund further grew, despite its voluntary nature, overcoming the initial problems of reduced membership and dwindling funds, and finally emerging as a viable agency in the housing industry.

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.

On the same year, the Civil Service Commission and then Senator Blas Ople, as Chair of the Senate Committee on Civil Service, conferred the Center of Excellence in Public Service Award to Pag-IBIG Fund. Criteria for selection included "demonstration of integrity and efficiency, optimization of scarce resources, visible improvements in service delivery, and high standards of performance achieved in relative anonymity and without self-seeking fanfare."

Pag-IBIG Fund, indeed, has grown to become the country's primary housing finance institution. This was demonstrated when Pag-IBIG Fund took over the responsibility of NHMFC as primary conduit for the UHLP loans in 1996. While providing massive funding support to UHLP, Pag-IBIG Fund sustained its in-house lending programs.

The quantitative increase in beneficiaries and units of assistance was supplemented by a qualitative enhancement of its programs, in a continuing effort to be responsive to members, particularly those in the marginalized sector. All these initiatives made the Pag-IBIG Fund members not only homeowners, but more importantly, major contributors to the government's housing program and shapers of the country's future.

Pag-IBIG Fund's infusion of much-needed liquidity into the UHLP 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.

The geometric growth in demand for housing finance continued to tail the financial resources of Pag-IBIG Fund, despite invigorated cashflow infusion from mandatory coverage and improved collection efficiency. 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, therefore, undertaken to lay the groundwork for the leveraging of 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.

In 1999, then President Joseph E. Estrada signed Executive Order No. 159, declaring Mass Housing as the centerpiece program of his administration and constituting the Presidential Commission for Mass Housing. EO 159 was issued to implement his vision to make housing the major strategy to revitalize the economy and provide for the needs of the poor.

To generate funds for housing finance, Pag-IBIG Fund issued PhP4.0 Billion worth of HDMF bonds with the Bankers Association of the Philippines (BAP) as financial advisor.

Years after its creation, Pag-IBIG Fund, the Filipino workers' fund, remains formidable as the country's provident fund and premier housing fund.

### ***Financial Programs and Achievements***

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.

As of March 2004, Pag-IBIG Fund has serviced a total of 510,563 individual borrowers, for a total loan value of PhP90.914 Billion and a total number of 441,859 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.

As of the same period, Pag-IBIG Fund has given out a total credit line availment of PhP16.383 Billion for 146,261 units to institutions as represented by developers and identified groups.

**Table 1. Housing Loan Programs of Pag-IBIG Fund.**

Housing Loan Programs		TOTAL LOAN VALUE / CREDIT LINE AVAILMENT (PhP M)	NUMBER OF UNITS	NUMBER OF BORROWERS
<b>a. Retail Financing</b>	<b>FIRST QUARTER 2004</b>	3,158.691	8,841	8,874
	<b>CUMULATIVE (AS OF MAR. 2004)</b>	90,914.290	441,859	510,563
<b>b. Institutional Financing</b>	<b>FIRST QUARTER 2004</b>	646.971	3,639	
	<b>CUMULATIVE (AS OF MAR. 2004)</b>	16,382.906	146,261	

Under **Retail Financing**, Pag-IBIG Fund has three programs: 1) Expanded Housing Loan Program (EHLP), which forms the bulk of retail lending; 2) Rent-to-Own Program; and 3) Housing Loan Restructuring & Penalty Condonation Program.

**EHLP** may be used to finance any one or a combination of the following: 1) purchase of a fully developed lot not exceeding 1,000 square meters 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, which may be old or brand new, a property mortgaged with Pag-IBIG Fund, or an acquired asset which is disposed of through sealed public bidding or negotiated sale; 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. It shall charge a lower interest on housing loans paid on time, as follows:

Loan Amount	If payment is made on or before the due date	If payment is made after the due date
Up to PhP150,000	6%	8%
Over PhP150,000 to PhP225,000	9%	11%
Over PhP225,000 to PhP500,000	10%	12%
Over PhP500,000 to PhP2.00M	12%	14%

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.

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.

As of March 2004, a total of 325,647 members have availed of the EHLP, for a total loan value of PhP67.497 Billion for a total number of 309,799 units. A total of 184,916 members have availed of other retail lending programs, for a total loan value of PhP23.418 Billion for a total number of 132,060 units.

**Table 2. Retail Financing Programs of Pag-IBIG Fund.**

Retail Financing		TOTAL LOAN VALUE / CREDIT LINE AVAILMENT (PhP M)	NUMBER OF UNITS	NUMBER OF BORROWERS
<b>a. Expanded Housing Loan Program (EHLP)</b>	<b>FIRST QUARTER 2004</b>	3,158.691	8,841	8,874
	<b>CUMULATIVE (AS OF MAR. 2004)</b>	67,496.624	309,799	325,647
<b>b. Others</b>	<b>FIRST QUARTER 2004</b>	0	0	0
	<b>CUMULATIVE (AS OF MAR. 2004)</b>	23,417.666	132,060	184,916

Pag-IBIG Fund has the following programs under **Institutional Financing**: 1) Developmental Loan Program (DLP), 2) Program for the Development of Medium/High-Rise Condominium Building (MHRB) Projects in Metro Manila and Highly Urbanized Cities, 3) Pag-IBIG City Program, 4) Credit Facility for Private Developers, 5) Group Land Acquisition and Development Program (GLAD), 6) Purchase of Housing Receivables, 7) Funding Commitment Line (FCL) covered by Domestic Letter of Credit, and 8) Pag-IBIG Homes Direct Financing Program.

The **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. At the option of the borrower, the loan shall bear an interest rate defined as the prevailing market rate (on Friday preceding the date of release of proceeds) of either a) 2-year Treasury Notes plus three percent (3%) or b) 91-day Treasury Bills plus five percent (5%), subject to repricing every six months.

The **Program for the Development of 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.

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.

The MHRB and Pag-IBIG City Programs shall bear an interest rate defined as the prevailing market rate (on Friday preceding the date of release of proceeds) of 2-year Treasury Notes plus three percent (3%) during six (6) months marketing period, and five percent (5%) thereafter.

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. The loan shall bear an interest rate defined as the prevailing market rate (on Friday preceding the date of release of proceeds) of 2-year Treasury Notes plus three percent (3%).

The **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. The interest rate on the total loan of the community association for land acquisition and site development shall be nine percent (9%) per annum. Once the loan share of each of the community association's members is converted into lot purchase loan, the interest rate shall be adjusted in accordance with the Consolidated Guidelines of the Pag-IBIG Housing Loan Program rates prevailing at the time of loan availment.

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.



The *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.

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.

Among the programs under Institutional Financing, the Credit Facility for Private Developers or Interim Financing program has the most total number of projects at 17,522, as of March 2004. This is followed by DLP and GLAD at 225 and 88 projects, respectively. DDLP availed of the highest total loan value or credit line availment at PhP3.954 Billion, followed by MHRB program, Interim Financing, Pag-IBIG City, and GLAD at PhP3.431 Billion, PhP3.152 Billion, PhP2.860 Billion, and PhP1.264 Billion, respectively.

**Table 3. Institutional Financing of Pag-IBIG Fund.**

Institutional Financing		LOAN VALUE / CREDIT LINE AVAILMENT (PhP M)	NUMBER OF UNITS	NUMBER OF PROJECTS
a. Developmental Loan Program (DLP)	FIRST QUARTER 2004	267.500	2,265	9
	CUMULATIVE (AS OF MAR. 2004)	3,954.171	63,269	225
b. Group Land Acquisition and Development Program (GLAD)	FIRST QUARTER 2004	62,226.000	782	1
	CUMULATIVE (AS OF MAR. 2004)	1,264.380	17,676	88
c. Pag-IBIG City	FIRST QUARTER 2004	0	0	0
	CUMULATIVE (AS OF MAR. 2004)	2,860.450	12,910	18
d. Medium-Rise Building	FIRST QUARTER 2004	290.000	454	2
	CUMULATIVE (AS OF MAR. 2004)	3,430.681	5,616	19
e. Housing Liquidity Bond Window	FIRST QUARTER 2004	0	0	0
	CUMULATIVE (AS OF MAR. 2004)	100.000	1,677	1
f. Local Government Unit (LGU)	FIRST QUARTER 2004	0	0	0
	CUMULATIVE (AS OF MAR. 2004)	163.120	1,761	7
g. Credit Facility for Private Developers/Interim Financing	FIRST QUARTER 2004	0	27	93
	CUMULATIVE (AS OF MAR. 2004)	3,151.914	2,835	17,522
h. Other Developmental Financing Programs	FIRST QUARTER 2004	0	0	0
	CUMULATIVE (AS OF MAR. 2004)	1,775.530	25,785	0

#### **4.0 Conclusion and Policy Recommendations**

As the Philippine Government benefits from the success of Pag-IBIG Fund and its great contribution to the housing industry, and subsequently, the economy, Pag-IBIG Fund's mandate must be highlighted, that of being "a provident savings system for employees, private and public, who shall be the members, supported by matching contributions of their respective employers, with housing as the primary investment."

Amidst Pag-IBIG Fund's role as the country's premier housing finance agency, its other role, of equal importance and magnitude, as a provident fund must not be glossed over. Pag-IBIG Fund's Special Reserve Fund for the scheduled repayment of members' Total Accumulated Value (TAV) must be built-up and maintained to ensure sufficient liquidity. As a provident fund, Pag-IBIG Fund must judiciously and continuously build-up its Reserve Fund to meet the contingency of membership withdrawal upon maturity of membership. On the other hand, with Pag-IBIG Fund taking the role of foremost player in housing finance, it must also have enough reserves to fulfill its financing duties.

Tax exemption is one resounding answer to possible dwindling of Pag-IBIG Fund resources. Pag-IBIG Fund used to be tax-exempt from its inception, as contained in PD 1530, when the fund was still voluntary. Section 8 states: "Notwithstanding any provision of existing law, decree, executive or administrative order, rule or regulation, the Fund, as well as the interests and dividends received by the members thereof, shall be exempt from the payment of any taxes, tariffs and duties, fees, imposts and assessments, and other charges, and no law hereafter enacted shall repeal this provision unless it is provided therein that the same is applicable to the Fund by specifically stating its name."

When the Fund became mandatory under PD 1752, similar provision on tax exemption was provided under Section 16: "Notwithstanding any provision of existing law, decree, executive or administrative order, rule or regulations to the contrary, the Fund and all its assets, collections, receivables and increments, as well as all distributions therefrom, whether of contributions, ratable income of the Fund, or dividends paid to or received by the members thereof, or their heirs/beneficiaries, shall be exempt from the payment of any and all form of taxes, assessments, and other charges. All such provident payments shall not be liable to attachment, garnishment, levy or seizure by or under any legal or equitable process whatsoever, either before or after receipt by the persons entitled thereto, except to pay any debt of the covered member of the Fund. In addition, The Government of the Republic of the Philippines hereby guarantees the payment of the employees' and employers' contributions and dividends to the members when they are due."

Given the scenario of not being tax-exempt, Pag-IBIG Fund's impetus in sustaining the government's shelter financing program suffers considerable setback. The amount for taxes, if retained with Pag-IBIG Fund, could be utilized in its existing programs, or could even be used to develop new programs that could further offer its services to a greater number and stratum of Filipinos.

Tax exemption is much better than tax subsidy, as the former would give back more income to Pag-IBIG Fund, since the latter does not cover final tax paid on certain transactions. To cite some figures when tax subsidy was applied to Pag-IBIG Fund: the total tax subsidy granted by the Fiscal Incentives Review Board (FIRB) for the period 1990-1995 amounted to PhP2.037 Billion, and the total final tax paid amounted to PhP980.599 Million. For 1996, the tax subsidy granted amounted to PhP877.646 Million, and the final tax paid amounted to PhP88.475 Million. If Pag-IBIG Fund was exempted from paying taxes from 1990 to 1996, it could have saved a total of PhP1.069 Billion. The amount, instead of being given to the national government for purposes which could be other than housing, could have been utilized by Pag-IBIG Fund for housing-specific programs.

Moreover, the amount could have been added to the dividends distributed to the members. For 1996, Pag-IBIG Fund credited 70% of its net income amounting to PhP2.06 Billion to members' savings in the form of dividends. Payment of income tax due would reduce the amount to PhP1.44 Billion only, a difference of PhP0.62 Billion. Reduction of the dividend would make the provident aspect of Pag-IBIG Fund unattractive to the members. It must be recalled that previously, the members were assured to earn 7.5% p.a. fixed dividends; and for sometime, variable dividends at the rate of 2.5% p.a. were added to the fixed dividends. With the shift in having only 70% of the net income to be declared as dividends, the dividend earnings became lesser than what used to be the fixed dividend of 7.5% p.a.. The average dividend rate for the last three years is only 4.3% p.a. By not being tax exempt, the policy of the Republic of the Philippines "to motivate the employed and the earning groups to better plan and provide for their housing needs by membership in an integrated, nationwide savings system established for the said purpose, with contributory support of the employer in the spirit of social justice and the pursuit of national development", will just be empty rhetorics.

Figures for 2001-2003, when Pag-IBIG Fund was already completely taxed, reveal greater resources that could have been used to fulfill its mandates. Taxes paid inclusive of percentage tax, final tax on certain transactions, miscellaneous, and corporate income tax amounted to PhP1.700 Billion in 2001, PhP2.017 Billion in 2002 and PhP1.688 Billion in 2003. The three year total is PhP5.035 Billion.

The Philippine Government, having given Pag-IBIG Fund the role of main provider of housing finance, should revert the tax exemption to Pag-IBIG Fund, to give it the financial strength to meet the challenges. Besides, employees provident funds of individual entities are being granted tax exemption privilege in consonance with the spirit of social legislation benefitting employees. As the collective provident fund of all covered employees, why should Pag-IBIG Fund not be tax exempt likewise?

By sharing the experiences of Pag-IBIG Fund in housing finance to the international community, the author has widened the scope of the "Bayanihan" spirit of the Filipino people and has embraced the international audience to be among those who, along with the Filipinos, work together to help the homeowner realize his/her dream of owning his/her own house in which s/he will build his/her home.

Thus, it is imperative that we learn from each other on how to institutionalize policy reforms in market-friendly housing policy, housing subsidy mechanism, development of primary and secondary mortgage market, rationalization of contractual savings, maintaining actuarial viability of employees provident funds, tax liberalization for employees' benefit programs, and other government support programs towards a more meaningful response to the housing needs of its populace.

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Note:

This paper is presented from the perspective of the author, and it may not necessarily present the official stand of the government.