

HOME DEVELOPMENT MUTUAL FUND

Corporate Headquarters
Petron Mega Plaza
Sen. Gil J. Puyat Avenue
Makati City

HDMF Circular No. 306

TO : ALL CONCERNED

**SUBJECT : REVISED GUIDELINES ON SINGLE BORROWER'S
LIMIT FOR WHOLESALE LOANS**

Pursuant to the approval of the HDMF Board of Trustees during its 280th Board Meeting held last December 21, 2011, the **Revised Guidelines on Single Borrower's Limit for Wholesale Loans** is hereby issued:

A. OBJECTIVES

This Single Borrower's Limit for Wholesale Loans aims to mitigate the risks and limit the losses in the event of a default by the Borrower/s and to avoid a situation where a single loss will adversely affect the profitability/financial condition of the Fund.

B. COVERAGE

This Circular shall cover any person, partnership, association, corporation or other entity availing of a loan under any **program** of the Fund.

The prescribed limit shall include:

- a. the direct liability of the borrower to the Fund and that of his relatives within the second civil degree of consanguinity or affinity;
- b. in the case of an individual who owns or controls a majority interest in a corporation, partnership, association or any other entity, the liabilities of said entities to the Fund, and the liabilities of all entities where he and all his relatives within the second civil degree of consanguinity or affinity has controlling interest;
- c. in the case of a corporation, all liabilities to the Fund of all subsidiaries in which such corporation, or any of its officers and stockholders and all their relatives within the second civil degree of consanguinity or affinity, owns or controls a majority interest;
- d. in case of a subsidiary, all its liabilities to the Fund and that of its parent company and affiliates where any of its officers or stockholders, and all their relatives within the second civil degree of consanguinity or affinity owns or controls a majority interest; and



- e. in the case of partnership, association or other entity, the liabilities to the Fund of the members thereof, and their relatives within the second civil degree of consanguinity or affinity.

Control of majority interest shall be synonymous to "controlling interest" and exists when the parent owns directly or indirectly through subsidiaries more than one half of the voting power of an enterprise unless, in exceptional circumstance, it can be clearly demonstrated that such ownership does not constitute control. Control of majority interest may also exist even when the parent owns one half or less of the voting power of an enterprise when there is:

1. Power over more than one half of the voting rights by virtue of an agreement with other investors; or
2. Power to govern the financial and operating policies of the enterprise under a statute or an agreement; or
3. Power to appoint or remove the majority members of the board of directors or equivalent governing body; or
4. Power to cast the majority votes at meetings of the board of directors or equivalent governing body; or
5. Any other arrangement similar to any of the above.

C. SINGLE BORROWER'S LIMIT (SBL)

The total amount of loans, credit accommodations and guarantees that may be extended to any person, partnership, association, corporation or other entity shall at any point in time not to exceed **twenty-five percent (25%) of the Free Retained Earnings** of the Fund.

The basis for determining compliance with the single borrower's limit is the total credit commitments of the Fund to or on behalf of the borrower.

Other credit accommodations shall refer to credit and specific market risk exposures of the Fund arising from accommodations other than loans such as receivables (sales contract receivables, accounts receivables and other receivables) and debt securities booked as investments.

Guarantees shall refer to an irrevocable commitment of the Fund binding itself to pay a sum of money in the event of non-performance of a contract by a third-party.

Guarantees shall also refer to an irrevocable commitment of the Fund binding itself to pay a sum of money in the event of performance of a contract by a counter party.

D. FREE RETAINED EARNINGS

Free Retained Earnings shall refer to the Retained Earnings after declaration of Dividends for the preceding year and net of the total of capital valuation accounts.



E. OTHER RISK MANAGEMENT PROVISIONS

1. The **Board Risk and Capital Committee** shall review the SBL policies regularly (at least once a year) to ensure that they are appropriate for the Fund.
2. The Fund shall have adequate systems and controls to identify, monitor and report in a timely manner large exposures, credit risk concentrations, and SBL balances / breaches of each entity and its related parties.

To ensure proper monitoring and compliance to the SBL policies, the Fund's financial system should have a Central Liability Ledger (CLL).

3. The SBL shall be computed on a quarterly basis and shall be effective upon receipt of the SBL certified by the **Vice President of Finance Group**.

The loan documents (MOA and/or Loan Agreement) should include provisions that in the event the total of the Borrower's /Developer's outstanding loan balances and contingent liabilities exceed the SBL, no subsequent releases shall be made and the Borrower / Developer shall do any of the following, subject to the approval of the Fund (in accordance to Authority Limits) within sixty (60) calendar days from receipt of notice:

- a. Fully pay the excess portion of its loan then outstanding;
- b. Assign government securities equivalent to 105% of the excess portion (using the BTr Pledge Form and Detach Assignment); or
- c. Assign certificate of time deposit in any of the Top 30 Universal and Commercial Banks (in terms of Capital).
- d. Assign bonds of listed private corporations that are quoted and actively traded in the market with credit rating of at least "PRs Aa (corp.);" equivalent to 110% of the excess portion.

In the event that the Borrower / Developer fails to comply within ninety (90) days (including the above sixty (60) days), the same shall be reported to the Credit Risk Committee and to the Board Risk and Capital Committee.

4. The Borrower's / Developer's Total Outstanding Loan Balance and contingent liabilities, for purposes of SBL shall include:
 - a. Direct Loans from HDMF (under the Institutional Loan Program);
 - b. Accounts Receivable arising from Buyback obligations for defaults and breaches of warranties;
 - c. Contingent liability for defaults and breaches of warranties but not yet recorded as accounts receivable;



- d. Book value of CTS accounts whose titles have been released to the Developer for conversion to REM but whose converted titles are not returned to the Mortgage Custodian of the Fund after 90 days; and,
- e. Contingent Liability from potential Buyback obligations due to defaults and breaches of warranties equivalent to:

Expected Loss Ratio x Outstanding Loan Value of total number of accounts within the seasoning period

Expected Loss Ratio = Total Loan Value of Accounts not bought back / Total Loan Value of accounts taken out (as of the preceding year)

- 5. The Borrower's / Developer's Total Outstanding Loan Balance and contingent liabilities, shall be evaluated on a quarterly basis, or as needed, and should not exceed the following:

- a. Computed Single Borrower's Limit (SBL) of the Fund
- b. **Four times (4x)** the Net Worth of the Borrower (**inclusive** of the loan being applied for), provided that at date of loan release and at any given time, while the loan is outstanding, the Borrower / Developer must maintain a Debt-to-Equity ratio of 80% / 20% or better.

The Debt-to-Equity ratio of the Borrower / Developer at the time of grant shall be computed from the audited financial statements of the preceding calendar or fiscal year. If the audited financial statements for the preceding year are not available, interim financial statements, signed by President / Head of the Company, may be used at time of grant provided the audited financial statements would be submitted for the next quarter evaluation.

The Loans Origination Group, Regional Operations Group and the Wholesale Lending Group shall be responsible for:

- a. Ensuring timely submission of the audited / interim financial statements;
- b. Quarterly monitoring of the Debt-to-Equity ratio of their respective Borrowers / Developers; and
- c. Compelling Borrowers / Developers to comply with (E.3) of this circular in case the Borrower's / Developer's outstanding balance and contingent liabilities exceed the SBL.

F. REPEALING CLAUSE

All previous Circulars or Memoranda in conflict or inconsistent with the provisions and/or purposes of this Circular are accordingly repealed, amended or modified.

G. TRANSITION PERIOD

For Developers with accounts outstanding with the Fund, they will be given ninety (90) days from effectivity of these guidelines to cover deficiencies/excess after which they shall be subjected to the provisions of Section E.3.

H. EFFECTIVITY

This Circular takes effect immediately.

Darlene Berberabe

ATTY DARLENE MARIE B. BERBERABE

Chief Executive Officer

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Makati City

April 10, 2012