

AN ACT TO AMEND, REPEAL, AND ADD NEW SECTIONS TO REPUBLIC ACT NUMBERED FIVE HUNDRED EIGHTY, OTHERWISE KNOWN AS THE HOME FINANCING ACT, TO ENABLE THE HOME FINANCING COMMISSION CA...

REPUBLIC ACT NO. 1557, June 16, 1956

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Be it enacted by the Senate and House of Representatives of the Philippines in Congress assembled.

SECTION 1. Republic Act Numbered Five hundred and eighty otherwise known as the "Home Financing Act" is hereby amended to read as follows:

CHAPTER I.—Creation of the Home Financing Commission

SEC. 2. There is hereby created a body corporate to be known as the Home Financing Commission which shall have its principal place of business in the City of Manila and shall exist for a period of fifty years. The functions of this Commission shall be—

- To operate a mortgage insurance program as provided in this Act.
- To encourage, aid or initiate the organization or incorporation of building and loan associations as provided in this Act.
- To promote home building and land ownership and to promulgate rules and regulations to carry out the provisions of this Act.

SEC. 3. Membership.—The Commission shall be composed of five members appointed by the President of the Philippines with the consent of the Commission on Appointments. The President shall designate one of the members as Chairman of the Commission who shall receive a compensation of twelve thousand pesos per annum. Any member of the Commission may be removed by the President for cause. Two of the members appointed shall be officers or directors of non-governmental mortgagee-institutions participating in the insured mortgage program in accordance with the provisions of this Act. The members shall receive for each meeting of the Commission attended a per diem of twenty-five pesos: Provided, however, That a member shall receive a total of not more than one thousand pesos a year in per diems. The Chairman shall hold office for five years. The members of the Commission shall likewise hold office for five years, with the exception of the members first appointed who shall serve one, two, three and four years, respectively, as stated in their appointments. Thereafter, the person appointed to succeed a member of the Commission whose term shall have expired shall continue to serve for the full five-year term, and, except in the case of vacancies caused otherwise than the expiry of the term, only one member shall be appointed to the Commission each year. In the event of vacancy, the successor appointed to fill the same shall serve only the unexpired portion of the term of the member he succeeds. Any person who is directly or indirectly interested in a construction company or in firm dealing in building and construction materials and accessories, real estate development companies and financial institutions that may have transactions with the Home Financing Commission shall be disqualified from being a member thereof, except for the two

members who are officers or directors of non-governmental mortgagee-institutions participating in the insured mortgage program who shall be appointed as provided in this section.

SEC. 4. Powers.—The Commission shall have the following powers:

- To insure mortgages and loans upon application by qualified mortgagees as provided in Chapter II of this Act;
- To insure the paid subscription of shareholders in Building and Loan Associations as provided in Chapter III of this Act;
- To underwrite, purchase, own, sell, mortgage or otherwise dispose of stocks, bonds, debentures, securities and other evidences of indebtedness issued for in connection with the powers enumerated in the preceding paragraphs and under Chapters II and III of this Act.
- To issue bonds, debentures, securities, collaterals, notes and other obligations with the approval of the President after consultation with the Monetary Board of the Central Bank of the Philippines, but in no case to exceed for any one time the aggregate amount of the principal obligations of all mortgages and accounts insured under Chapters II and III of this Act plus the amount authorized for the Home Financing Fund in accordance with the provisions of section six of this Act. These bonds and other obligations shall be issued under such terms and conditions as are provided in this Act and the rules and regulations prescribed by the Commission and shall be redeemable at the option of the Commission at or before maturity and in such manner as may be stipulated therein and shall bear such rate of interest as may be fixed by the Commission but not more than four per cent per annum. Such obligations shall be secured by the assets of the Commission, including the stocks, bonds, debentures and : other securities underwritten, purchased or held by it Sunder the provisions of this Act. The Commission shall provide for appropriate reserves for the redemption or retirement of said obligations. Such obligations may be issued and offered for sale at such price or prices as the Commission may determine, and shall be exempt from taxation as to principal and interest, except estate, inheritance and gift taxes. The said obligations shall be and are hereby fully and unconditionally guaranteed both as to principal and interest by the Government of the Republic of the Philippines and such guaranty shall be expressed on the face thereof. Bonds issued by the Commission shall be registered at the request of the holder thereof under such rules and regulations as may be prescribed by the Commission:
- To promote housing by the aided self-help method whereby families with some outside aid build their own houses with their own labor; to provide technical guidance to such families; to own and let out at nominal rental any simple equipment or tools needed for self building of houses; to insure loans to such families on first liens on house and land and with such other security and conditions as the Commission shall determine, providing at least for ultimate recovery of principals; and to do such other activities as are relevant and significant in such a of aided self-help for housing.
- To adopt, alter, and use a corporate seal; to contracts; to lease or own real and personal property; and to sell, mortgage or otherwise dispose of the same;
- To sue and be sued in any court of competent jurisdiction;
- To employ such officers and personnel as may be necessary to carry out the business of the Commission; otherwise to do and perform any and all things that may be necessary, proper or incidental to carry out the purposes of this Act.

SEC. 5. The Chairman.—The Chairman of the Commission shall preside over its deliberations and shall be its General Manager. He shall, on behalf of the Commission, have the direction and control of the business of the

Commission in all matters which are not by this Act or by the rules and regulations of the Commission specifically reserved to be done by the Commission. The decisions of the Commission shall be made by a vote of the majority of all its members.

SEC. 6. Home Financing Fund.—There is hereby authorized to be appropriated an amount not exceeding five million pesos to be designated as a Home Financing Fund, which shall be used by the Commission to carry out the provisions of this Act; and for this purpose the Commission is hereby authorized, with the approval of the President, to borrow such amounts as may be necessary from any government office, agency, or instrumentality or private financing entity or entities authorized to give loans. This loan may be negotiated in the form of bonds under the authority contained in section four (d) of this Act.

SEC. 7. Auditor.—The Auditor of the Commission shall be appointed by the Auditor General, who shall also appoint and for cause, remove, upon the recommendation of the Auditor, the personnel of the Auditing Office. The Commission shall fix the salary of the Auditor and the number and rates of salaries of the personnel of the Auditing Office. The amount of other operating expenses of the Auditing Office shall also be fixed by the Commission. The Auditor shall submit, through the Commission, an annual report on the financial condition and the result of the operation of the Commission to the President, the Senate through its president, the House of Representatives through the Speaker, the Secretary of Finance, the National Economic Council and the Auditor General.

SEC. 8. Report.—The Commission shall submit an annual report to the President and to the Congress of the Philippines, after the first day of January of each year but not later than the first day of April, regarding its activities under this Act for the previous year.

CHAPTER II.—Classification of risks and method of insuring lending institutions

SEC. 9. With a view to encourage the repair of existing residential buildings, and the rehabilitation requirements and recovery from damage caused by the elements, the Home Financing Commission shall prescribe rules and regulations to govern the insurance authorized under this section in accordance with the provisions set forth hereunder:

- The Commission is authorized to insure banks, insurance companies, building and loan associations and other qualified lending institutions against losses which they may sustain as a result of eligible property improvement loans. The lending institutions shall be charged with the responsibility of exercising the proper credit judgment in making the loans.
- The lending institution shall be insured against losses up to ninety per centum of the aggregate net amount loaned over a given period.
- Two classes of loans may be issued under this Section at the discretion of the Commission even though they may be subject to existing mortgages:
- Loans covering the cost of repair, alteration or improvement begun after the date of the approval of this Act of an existing structure, such loans not to be in excess of six thousand pesos and to mature in not to exceed five years on a monthly amortization basis;
- Loans covering the cost of alteration, repair improvement or conversion begun after the date of the approval of this Act of an existing structure used or to be used as a dwelling for two or more families, such loans not to be in excess of twenty thousand pesos and to mature in not exceeding ten years on a monthly amortization basis.

SEC. 10. (a) The Commission is authorized, upon application by a qualified mortgagee, to insure in accordance

with the provisions of this Act, any mortgage offered to it which is eligible for insurance as hereinafter provided, and, upon such terms as the Commission may prescribe, to make commitments for the insuring of such mortgages prior to the date of their execution or any disbursement thereon.

(b) To be eligible for insurance under this section a mortgage shall—

- Involve a principal obligation (including such initial service charges, appraisal, inspection, and other fees as the Commission shall approve) in an amount—

- not to exceed twenty five thousand five hundred pesos nor in any case ninety per centum of the appraised value (as of the date of the mortgage is accepted for insurance) of a property, whether urban, suburban, or rural, upon which there is located a dwelling designed principally for a single-family residence, the construction of which is begun after the date of approval of this Act and which is approved for mortgage insurance prior to the beginning of construction: Provided, That no mortgage shall be insured under this paragraph unless the mortgagor shall be the owner and occupant of the property at the time of insurance and shall have paid on account of the property, in cash or its equivalent, at least ten per centum of the appraised value thereof;

- not to exceed nine thousand five hundred pesos nor in any case ninety-five per centum of the appraised value of a property, whether urban, suburban, or rural, upon which there is located a dwelling, designed principally for a single-family residence prior to the beginning of construction: Provided, That no mortgage shall be insured under this paragraph unless the mortgagor shall be the owner and occupant of the property at the time of the insurance and shall have paid on account of the property, in cash or its equivalent, at least five per centum of the appraised value thereof.

- Have a maturity satisfactory to the Commission, but not to exceed twenty-five years in the case of those under paragraph (1) (A) and (1) (B) hereof.

SEC. 11. (a) The Commission is authorized upon application by the mortgagee, to insure, in accordance with the provisions of this Act, any mortgage offered to it which is eligible for insurance as hereinafter provided and upon such terms as the Commission may prescribe (including advance on such mortgages during construction), if the mortgage covers property held by—

- The National Government, provincial, city or municipal governments, or government-owned or controlled corporations and agencies.

- Private corporations, developmental builders, associations, cooperative societies which are legal agents of owner-occupants, or trusts formed or created for the purpose of rehabilitating slum or blighted areas, or providing housing for rent or sale, and which possess powers necessary therefor and incidental thereto, and which until the termination of all obligations of the Commission under such insurance, are regulated or restricted by the Commission as to rents or sales, charges, capital structure, rate of return, and method of operation to such extent and in such manner as to provide reasonable rentals to tenants and a reasonable return on the investment. The Commission may such contracts with, and acquire for not to exceed one hundred pesos, such stock or interest in, any such corporation, association, cooperative society, or trust as it may deem necessary to render effective such restriction or regulation. Such stock or interest shall be paid for out of the fund and shall be redeemed by the corporation, association, cooperative society, or trust at par upon the termination of all obligations of the Commission under the insurance.

- An individual owner or joint-owners,

(b) Such mortgages may cover the installation of improvements involving—

- A project by a developmental builder for the construction of not less than twenty dwellings at one time under a single-mortgage with a release clause permitting the subsequent sale of each individual completed house together with land. Loans for advances of funds used for purchase of material in anticipation of mass construction and standardization of parts may be insured in the discretion of the Commission.

- A rental project of at least twenty units and not to exceed one thousand units and involve a principal obligation (including such initial service, charges, appraisal, inspection, and other fees as the Commission shall approve) in an amount not to exceed five million pesos.

(c) To be eligible for insurance under this section a mortgage shall—

- Involve a principal obligation not to exceed eighty per centum of the prudent cost to the builder of the proposed physical improvements, including buildings, utilities within the boundaries of the property or projects, cost of land, architect's fees, taxes and interests accruing during construction; but not including builders' profit nor other charges, except (for estimated depreciated cost of any existing utilities). The builder shall submit certified bills of sale and other evidences of cost and the Commission shall be the sole judge of the prudence of the expenditure as necessary to comply with the plans and specifications.

GENERAL PROVISIONS

SEC. 12 (a) Notwithstanding the foregoing provisions, the Commission may, as a matter of sound business policy, set a limit on the total amount to be insured under each section of this chapter and in no case shall the aggregate amount of the outstanding principal obligations of mortgages insured under this chapter exceed five hundred million pesos at any one time.

(b) The Commission shall fix, in accordance with sound actuarial practice and the risk characteristics involved, the rates of insurance premiums for each class of loans or mortgages as prescribed under each section of this chapter: Provided, however, That no insurance premium for any particular class of loans or mortgages shall be fixed at less than one half of one per centum nor more than one per centum of the amount of the outstanding principal obligation. Such premium charges shall be payable by the mortgagee, either in cash, or in debentures issued by the Commission at par value plus accrued interest, in such manner as may be prescribed by the Commission.

(c) The Commission may, in accordance with the provisions of the mortgage, or in the absence thereof, upon such terms and conditions as it may prescribe, release part or parts of the mortgaged property from the lien of the mortgage.

(d) The Commission may charge and collect such amounts as it deems reasonable for the appraisal of a property or project offered for insurance and may likewise charge and collect such amounts as it deems reasonable for the inspection of such property or project during construction: Provided, That such charges for appraisal and inspection shall not aggregate more than one per centum of the principal face amount of the mortgage.

SEC. 13. To be eligible for insurance under this chapter, a mortgage shall—

- Have been made to, and be held by a qualified mortgagee approved by the Commission as responsible and able to service the mortgage property;

- Contain complete amortization provisions satisfactory to the Commission requiring periodic payments by the mortgagor not in excess of his reasonable ability to pay as determined by the Commission;

- Bear interest (exclusive of premium charges for insurance) at not to exceed five per centum per annum on the

amount of the principal obligation outstanding at any time, or not to exceed six per centum per annum if the Commission finds that in certain areas or under special circumstances the mortgage market demands it: Provided, That loans made under section nine may be made at a discount of five pesos per annum per one hundred pesos;

- Provide, in a manner satisfactory to the Commission for the application of the mortgagor's periodic payments (exclusive of the amount allocated to interest and to the premium charge which is required for mortgage insurance as hereinafter provided) to amortization of the principal obligation of the mortgage; and,
- Contain such terms and provisions with respect to insurance, repairs, alterations, payment of taxes, default reserves, delinquency charges, foreclosure proceedings, anticipation of maturity, additional and secondary liens, and other matters as the Commission may in its discretion prescribe.

PAYMENT OF INSURANCE

SEC. 14. (a) In any case in which the mortgagee in a mortgage insured under this chapter shall have foreclosed and taken possession of the mortgaged property in accordance with regulations of the Commission, the mortgagee shall be entitled to receive the benefit of the insurance as hereinafter provided, upon (1) the prompt conveyance to the Commission of rights to the property and (2) the assignment to it of all claims of the mortgagee against the mortgagor or others. Upon such conveyance and assignment, the obligation of the mortgagee to pay the premium charges for insurance shall cease and the Commission subject to the cash adjustment hereinafter provided, issue to the mortgagee debentures having a total face value equal to the value of the mortgage and a certificate of claim, as hereinafter provided.

(b) For the purpose of the above sub-section (a), the value of the mortgage shall be determined, in accordance with the rules and regulations prescribed by the Commission, by adding to the amount of the original principal obligation of the mortgage which was unpaid on the date of the institution of foreclosure proceedings, or on the date of the acquisition of the property after default other than by foreclosure, the amount of all payments which have been made by the mortgagee for taxes, ground rents, and water rates, which are liens prior to the mortgage, special assessments which are noted on the application for insurance or which become liens after the insurance of the mortgage, insurance on the mortgaged property, and any mortgage insurance premiums paid after either of such dates, and by deducting from such total amount any amount received on account of the mortgage after either of such dates and any amount received as rent or other income from the property, less reasonable expenses incurred in handling the property, after either of such dates.

(c) Debentures issued under this chapter shall be in such form and denominations in multiples of P50, shall be subject to such terms and conditions, and shall include such provisions for redemption, if any, as may be prescribed by the Commission, and may be in coupon or registered form. Any difference between the value of the mortgage determined as herein provided and the aggregate face value of the debentures issued, not to exceed P50, shall be adjusted by the payment of cash by the Commission to the mortgagee from the Fund as to mortgages insured under this chapter.

(d) The debentures issued under this chapter to any Mortgagee with respect to mortgages or loans insured under Chapters II and III shall be executed in the name of the Home Financing Commission as obligor, and signed for the Commission by the Chairman-General Manager by either his written or engraved signature, and shall be negotiable exempt from taxation, attachment, execution or seizure redeemable at the option of the Commission at or before maturity and fully guaranteed as to principal and interest by the Republic of the Philippines. All such debentures shall be dated as of the date the foreclosure proceedings were instituted, or the property was otherwise acquired by the mortgagee after default, and shall bear interest from such date at a rate as approved by the monetary board in an amount equivalent to the average yield to maturity, so revealed by market quotations, on all outstanding marketable obligations of the Republic of the Philippines having a

maturity date of ten or more years from the first day of the next preceding month and by adjusting such average annual yield to the nearest one eighth year per centum. The interest on the debentures shall be payable semi-annually on the first day of January and the first day of July of each year, and the debentures shall mature ten years after the date on which the debentures were issued or three years after July first following the maturity of the mortgage on the property in exchange for which the debentures were issued whichever is the shorter period, and may be used at the option of the mortgagee in the payment of insurance premiums due the Commission.

(e) The certificate of claim issued by the Commission to any mortgagee shall be for an amount which the Commission determines to be sufficient, when added to the face value of the debentures issued and the cash adjustment paid to the mortgagee, to equal the amount which the mortgagee would have received if, at the time of the conveyance to the Commission of the property covered by the mortgage, the mortgagor has redeemed the property and paid in full all obligations under the mortgage and a reasonable amount for necessary expenses incurred by the mortgagee in connection with the foreclosure proceedings, or the acquisition of the mortgaged property otherwise, and the conveyance thereof to the Commission. Each such certificate of claim shall provide that there shall accrue to the holder of such certificate with respect to the amount of such certificate, an interest at a rate to be determined by the Commission. The amount to which the holder of any such certificate shall be entitled shall be determined as provided herein.

(f) If the net amount realized from any property conveyed to the Commission under this section and the claims assigned therewith, after deducting all expenses incurred by the Commission in handling, dealing with, and disposing of such property and in collecting such claims, exceeds the face value of the debentures issued and the cash paid in exchange for such property plus all interest paid on such debentures, such excess shall be divided as follows:

- If such excess is greater than the total amount payable under the certificate of claim issued in connection with such property, the Commission shall pay to the holder of such certificate the full amount so payable, and any excess remaining thereafter shall be paid to the mortgagor of such property; and
- If such excess is equal to or less than the total amount payable under such certificate of claim, the Commission shall pay to the holder of such certificate the full amount of such claim.

(g) The aggregate amount at any one time of all such debentures issued to mortgagees with respect to mortgages or loans insured under this Act shall be fixed by the Commission with the approval of the President after consultation with the Monetary Board, which shall in no case exceed the aggregate amount of the outstanding principal obligations of all mortgages insured under this Act.

INVESTMENT OF FUNDS

SEC. 15. Moneys in the Fund, not needed for the current operations of the Home Financing Commission, shall be deposited with any government or commercial banks as may be approved by the Commission to the credit of the Fund, or invested in bonds or other obligations issued or guaranteed as to principal and interest by the Government. The Commission may purchase in the open market debentures issued under the provisions of this Act. Debentures so purchased shall be cancelled and not reissued.

CHAPTER III.—Building and Loan Association

SEC. 16. (a) In order to provide local mutual thrift institutions for the accumulation of savings and for the financing of homes, the Commission is authorized, under such rules and regulations as it may prescribe, and in accordance with the provisions of existing laws, to encourage, aid or initiate the organization and incorporation of associations to be known as Building and Loan Associations, to provide for their examination, regulation, and operation when insured by the Commission, and to issue contracts of insurance for the accounts of such

associations in accordance with the best practices of known mutual thrift and home financing institutions.

(b) Such associations shall raise their capital only in the form of payments on such shares as are authorized in their charter or articles of incorporation. No deposit shall be accepted and no certificates of indebtedness shall be issued except for such borrowed money as may be authorized by regulations of the Commission.

(c) Whenever insured by the Commission and where the loan is intended for housing development, such associations shall lend their funds only on the security of their shares, or on the security of first liens upon homes located within an area to be determined by the Commission: Provided, however, That no loan exceeding fifty thousand pesos shall be made on the security of first liens upon any one such property nor in any case an aggregate of ten per centum of the assets of such association on the security of such first liens on one property: And provided, further, That a portion of the assets of such associations may be invested in bonds and obligations issued or guaranteed by the Republic of the Philippines.

(d) The Commission shall have full power to provide in the rules and regulations herein authorized for the reorganization, consolidation, merger, or liquidation of such associations in accordance with existing laws, including the power to appoint a conservator or a receiver to take charge of the affairs of any such association, and to require an equitable readjustment of the capital structure of the same; and to release any such association from such control and permit its further operation.

(e) The Commission is authorized to subscribe for preferred shares in such associations which shall be preferred as to the assets of the association and which shall be entitled to a dividend, if earned, after payment of expenses and provision for reasonable reserves, to the same extent as other shareholders: Provided, however, That the subscription by the Commission to the shares of any one such association shall not exceed one hundred thousand pesos, and no such subscription shall be made unless in the judgment of the Commission the funds are necessary for the encouragement of reasonable local home financing in the community to be served. In case of the liquidation of any such association, the shares held by the Commission shall be retired on the same basis as payments are made to other shareholders in accordance with existing laws.

(f) When insured by the Commission, such associations including their franchises, capital, reserves, surplus, and their loans, receipts, and incomes, shall be exempt from all taxation now or hereafter imposed by the Government.

SEC. 17. (a) The Commission may insure the accounts of any Building and Loan Association and upon such term as the Commission may prescribe, to make commitments for the insuring of the accounts of such associations prior to the date of their organization and chartering. Notwithstanding the foregoing provisions, the total amount of accounts of Building and Loan Associations insured under this chapter shall not exceed the sum of five hundred million pesos at any one time.

(b) Each institution whose application for insurance is approved by the Commission shall pay to the Commission in such manner as it shall prescribe, a premium charge for such insurance at the rate set by the Commission under the provisions of this Act on the basis of the total amount of all accounts of the insured members of such institutions plus any creditor obligations of such institutions. Such premium shall be paid at the time the certificate is issued by the Commission and thereafter annually or semi-annually as the Commission may prescribe until a reserve fund has been established by the Commission equal to ten per centum of all insured accounts and creditor obligations of all insured institutions. If at any time such reserve fund falls below such ten per centum, the payment of such annual premium charge for insurance shall be resumed and shall be continued until the reserve is brought back to ten per centum. For the purposes of this subsection, the amount in all accounts of insured members and amount of creditor obligations of any institution may be determined from adjusted statements made within one year prior to the approval of the application of such institution for insurance, or in such other manner as the Commission may by rules and regulations prescribe.

(c) The Commission is further authorized to raise the rate of premiums for insurance until the amount of such premiums is sufficient to cover the amount of all losses and expenses of the Commission: Provided, however, That the total amount of such premiums in any one year shall not exceed one per centum of the total amount of the accounts of its insured members and its creditor obligations.

SEC. 18. Each institution whose application for insurance under this Chapter is approved by the Commission shall be entitled to insurance up to the full withdrawal or repurchasable value of the accounts of each of its shareholders: Provided, however, That no shareholder shall be insured for an aggregate amount in excess of ten thousand pesos in any one association.

SEC. 19. The Commission is hereby authorized to prescribe, in accordance with existing laws, rules and regulations governing the procedure to be followed in the event of a default by any insured institution including the rehabilitation or liquidation of such insured institution.

SEC. 20. To enable the Commission to encourage local thrift and local home financing and to promote, organize and develop the association herein provided for, the Commission is hereby authorized to use money from the Fund. The sums expended under this section shall be used impartially in the promotion and development of local thrift and home financing institutions.

SEC. 21. Each association organized under this Chapter shall use the words "Building and Loan Association" in their corporate names in addition to any other specific designation that may be used, and, further, that no other corporation or association other than those organized under this Chapter shall be permitted to use the words "Building and Loan Association".

CHAPTER IV.—Miscellaneous

SEC. 22. Definitions.—As used in this Act:

- The term "mortgage" means a first mortgage on real estate in fee simple, or on the interest of either the lessor or lessee thereof under a lease for not less than ninety-nine years which is renewable or under a lease having a period of not less than fifty years to run from the date the mortgage was executed, upon which there is located or upon which there is to be constructed a building or buildings designed principally for residential use; and the term "first mortgage" means such classes of first liens as are commonly given to secure advances on, or the unpaid purchase price of, real estate together with the credit instrument or instruments, if any, secured thereby, and may be in the form of trust mortgages or mortgage indentures of deeds of trust securing notes, bonds, or other credit instruments.
- The term "mortgagee" means the original lender under a mortgage, and its successors and assigns, and includes the holders of credit instruments issued under a trust mortgage or deed of trust pursuant to which such holders act by and thru a trustee herein named.
- The term "mortgagor" means the original borrower under a mortgage and its successors and assigns.
- The term "maturity date" means the date on which the mortgage indebtedness would be extinguished if paid in accordance with the periodic payments provided for in the mortgage.
- The term "slum or blighted area" means any area where dwellings predominate which, by reason of dilapidation, overcrowding, faulty arrangement or design, lack of ventilation, light or sanitation facilities, or any combination of these factors, are detrimental to safety, health, or morals.
- The term "rental housing" means housing, the occupancy of which is permitted by the owner thereof in consideration of the payment of agreed charges, whether or not by the terms of the agreement, such payment over

a period of time will entitle the occupant to the ownership of the premises.

- The term "Commission" means the Home Financing Commission.

SEC. 23. Open-end Mortgages.—Notwithstanding any other provisions of this Act, in connection with any mortgage insured pursuant to any section of this act which covers a property upon which there is located a dwelling designed principally for residential use, the Commission is authorized, upon such terms and conditions as it may prescribe, to insure the amount of any advance for the improvement or repair of property made to the mortgagor pursuant to an "open-end" provisions in the mortgage, and to add the amount of such advance to the original principal obligation in determining the value of the mortgage for the purpose of computing the amounts of debentures and certificate of claim to which the mortgagee may be entitled: Provided, That the Commission may require, the payment of such charges, including charges in lieu of insurance premiums, as it may consider appropriate for the insurance of such "open-end" advances: Provided, further, That only advances for such improvements or repairs as substantially protect or improve the basic livability or utility of the property involved shall be eligible for insurance under this section: Provided, further, That no such advance shall be insured under this section if the amount thereof plus the amount of the unpaid balance of the original principal obligation of the mortgage would exceed the amount of such original principal obligation unless the mortgagor certifies that the proceeds of such advance will be used to finance the construction of additional rooms or other enclosed space as a part of the dwelling: And provided, further, That the insurance of "open-end" advances shall not be taken into account in determining the aggregate amount of principal obligations of mortgages which may be insured under this act.

SEC. 24. Warranty.—The Commission is hereby authorized and directed to require that, in connection with any property upon which there is located a dwelling designed principally for not more than a one family residence and which is approved for mortgage insurance or guaranty prior to the beginning of construction, the seller or builder, and such other person as may be required by the said Commission to become warrantor, shall deliver to the purchaser or owner of such property a warranty that the dwelling is constructed in substantial conformity with the plans and specifications on which the Commission based its valuation of the dwelling: Provided, That the Commission shall deliver to the builder, seller, or other warrantor their written approval of any amendment of or change or variation in, such plans and specifications which the Commission deems to be a substantial amendment thereof, or change or variation therein, and shall file a copy of such written approval with such plans and specifications: Provided, further, That such warranty shall apply only with respect to such instances of substantial nonconformity to such approved plans and specifications as to which the purchaser or homeowner has given written notice to the warrantor within one year from the date of conveyance of title to, or initial occupancy of, the dwelling, whichever first occurs: Provided, further, That such warranty shall be in addition to, and not in derogation of all other rights and privileges which such purchaser or owner may have under any other law or instrument: And provided, further, That the provisions of this section shall apply to any such Property covered by a mortgage after the passage of this Act.

The Commission is further directed to permit copies of the plans and specifications for dwellings in connections with which warranties are required by this section to be made available in their appropriate offices for inspection or for copying by any purchaser, homeowner, or warrantor during such hours or periods of time as the said Commission may determine to be reasonable.

SEC. 25. Amendatory provisions—

- All banking institutions, trust companies, personal finance companies, mortgage companies, building and loan associations, installment lending companies, insurance companies, the Government Service Insurance System,

and other financial institutions, are hereby authorized to invest part of their funds for the purpose of giving loans and advance of credit contemplated and provided in this Act, as well as in the purchases of obligations representing loans and advances of credit made pursuant to the provisions of this Act, any provision of their respective charters or by-laws to the contrary notwithstanding. Any amount invested by banks and/or insurance companies in the financing of mortgage loans for housing development under this Act, shall be guaranteed both as to principal and interest by both the Home Financing Commission and the Government of the Republic of the Philippines.

- The Rehabilitation Finance Corporation shall:

- Purchase, service or sell mortgages which are insured under the provisions of this Act.

- Subject to the approval of the Monetary Board issue bonds, debentures, securities, collaterals and other obligations against the security of mortgages insured under this Act, in such amounts and in such proportion to the face value of such mortgage as the Board of Governors may designate and such obligations may be issued and offered for sale at such price or prices as the Rehabilitation Finance Corporation may determine, and shall be negotiable and exempt from taxes both as to principal and interest. The said obligations shall be and are hereby fully and unconditionally guaranteed both as to principal and interest by the Government of the Republic of the Philippines and such guarantee shall be expressed on the face thereof and the President is hereby authorized to endorse such debentures for the Government of the Republic of the Philippines as prime obligor in such form as may be designated by the International Bank of Reconstruction and Development.

- Interests accumulated by lending institutions on mortgages insured under the provisions of this Act shall be exempt from all taxation.

SEC. 26. Penalties.—

- Whoever, for the purpose of obtaining any loan or advance of credit from any person, partnership, association, or corporation with the intent that such loan or advance of credit shall be offered to or accepted by the Home Financing Commission for insurance, or for the purpose of credit, or mortgage insured by the said Commission, or the acceptance, release or substitution of any security on such a loan, advance of credit, or for the purpose of influencing in any way the action of the said Commission under this Act, makes, passes, utters, or publishes, or causes to be made, passed, uttered, or published any statement, knowing the same to be false, or alters, forges, or counterfeits, or causes or procures to be altered, forged, or counterfeited, any instrument, paper, or document, or utters, publishes, or passes as true, or causes to be uttered, published or passed as true, any instrument, paper, or documents, knowing it to have been altered, forged, or counterfeited, or willfully overvalues any security, asset, or income, shall be punished by a fine of not less than the amount of the loan or loans involved or by imprisonment for not more than ten years or both.

- Whoever (1) falsely makes, forges, or counterfeits any obligation or coupon, in imitation of or purporting to be an obligation or coupon issued under authority of this Act, or (2) passes, utters, or publishes, or attempts to pass, utter, or publish, any false, forged, or counterfeited obligation or coupon purporting to have been so issued knowing the same to be false, forged, or counterfeited or (3) falsely alters any obligation or coupon so issued or purporting to have been so issued, or (4) passes, utters or publishes, or attempts to pass, utter, or publish, as true any falsely altered or spurious obligation or coupon, so issued or purporting to have been so issued, knowing the same to be falsely altered or spurious shall be punished by a fine of not more than ten thousand pesos, or by imprisonment for not more than five years, or both.

- Any person who willfully and knowingly makes, circulates, or transmits to another or others any statement, or

rumor written, printed or by work of mouth, which is untrue in fact and is directly or by inference derogatory to the financial condition or affects the solvency or financial standing of the Home Financing Commission, or who knowingly counsels, aids, procures, or induces another to start, transmit, or circulate any such statement of rumor, is guilty of felony punishable by a fine of not more than one thousand pesos or by imprisonment of not exceeding one year, or both.

SEC. 27. Separability provisions.—If any provisions of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act, and the application of such provision to other persons or circumstances, shall not be affected thereby.

SEC. 28. All laws or parts of laws inconsistent with the provisions of this Act are hereby repealed.

SEC. 29. This Act shall take effect upon its approval.

Approved, June 16, 1956.

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