

CONFORMED COPY

LOAN NUMBER 2929 IN

(HDFC Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

HOUSING DEVELOPMENT FINANCE CORPORATION LIMITED

Dated April 21, 1988

LOAN NUMBER 2929 IN

LOAN AGREEMENT

AGREEMENT, dated April 21, 1988 between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and HOUSING DEVELOPMENT FINANCE CORPORATION LIMITED (the Borrower), a company registered under the Companies Act, 1956 of India, as amended to the date of this Agreement.

WHEREAS (A) India, acting by its President (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested the Bank to assist in the financing of the Project;

(B) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions), constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Housing Mortgage Loan" means a loan made or proposed to be made by the Borrower in accordance with its lending criteria to any beneficiary for a specific residential unit or units to be built or acquired in India, for which the Borrower may use the proceeds of the Loan;

(b) "Policy Statement" means the statement of policy adopted by the Borrower's Board of Directors on May 2, 1978, as amended to the date of this Agreement;

(c) "Sitting Committee" means the committee appointed by the Guarantor to study mortgage insurance and adjudication of mortgage claims comprising representatives from the General Insurance Corporation of India, Housing and Urban Development Corporation, Ministry of Urban Development and the Borrower;

(d) "Subsidiary" means any company of which a majority of the outstanding voting stock or other proprietary interest is owned or effectively controlled by the Borrower or by any one or more subsidiaries of the Borrower or by the Borrower and one or more of its subsidiaries; and

(e) "Rupees" or "Rs" means the currency of the Guarantor.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount in various currencies equivalent to two hundred fifty million dollars (\$250,000,000).

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower for Housing Mortgage Loans; and (ii) for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for Part B of the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

Section 2.03. The Closing Date shall be September 30, 1991 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate per annum for each Interest Period equal to one-half of one percent per annum above the Cost of Qualified Borrow-

ings for the last Semester ending prior to the commencement of such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Guarantor and the Borrower of the Cost of Qualified Borrowings for such Semester.

(c) For purposes of this Section:

- (i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.
- (iii) "Semester" means the first six months or the second six months of a calendar year.

Section 2.06. Interest and other charges shall be payable semiannually on May 1 and November 1 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate engineering, financial and administrative practices and in accordance with the Policy Statement and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the equipment and materials and consultants' services required for Part B of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. The Borrower shall implement Part B of the Project in accordance with a mutually agreed action plan.

Section 3.04. The Borrower undertakes that Housing Mortgage Loans shall be made in accordance with the Borrower's lending criteria as in force from time to time, including the terms and conditions set forth in Schedule 5 to this Agreement.

ARTICLE IV

Management and Operations of the Borrower

Section 4.01. The Borrower shall carry on its operations and conduct its affairs in accordance with sound administrative and financial practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 4.02. The Borrower shall, commencing in fiscal year 1989, formulate and furnish to the Bank at the beginning of each fiscal year its proposed plans for branching and expansion.

Section 4.03. The Borrower shall, not later than June 30, 1989, formulate and furnish to the Bank the plans for a program to

broaden lending to lower income borrowers.

ARTICLE V

Financial Covenants

Section 5.01. (a) The Borrower shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(b) The Borrower shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of its financial statements for such year as so audited, and (B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records, accounts and financial statements as well as the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 5.02. (a) Except as the Bank shall otherwise agree, the Borrower shall not incur or permit any Subsidiary to incur any debt if, after the incurring of such debt, the consolidated debt of the Borrower and all its Subsidiaries then incurred and outstanding would be greater than 17.5 times the consolidated capital and surplus of the Borrower and all its Subsidiaries.

(b) For the purposes of this Section:

- (i) "debt" means any debt incurred by the Borrower or any Subsidiary maturing more than one year after

the date on which it is originally incurred;

- (ii) debt shall be deemed to be incurred: (A) under a loan contract or agreement (including the Loan Agreement) on the date and to the extent the amount of the loan is drawn down and outstanding pursuant to such loan contract or agreement; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into but only to the extent that the guaranteed debt is outstanding;
- (iii) whenever in connection with this Section it shall be necessary to value in terms of Rupees debt payable in foreign currency, such valuation shall be made at the prevailing lawful rate of exchange at which such foreign currency is, at the time of such valuation, obtainable by the Borrower for the purposes of servicing such debt;
- (iv) "consolidated debt of the Borrower and all its Subsidiaries" means the total amount of debt of the Borrower and its Subsidiaries, excluding any debt owed by the Borrower to any Subsidiary or by any Subsidiary to the Borrower or to any other Subsidiary; and
- (v) "consolidated capital and surplus of the Borrower and its Subsidiaries" means the aggregate of the unimpaired paid-up capital, surplus and free reserves of the Borrower and its Subsidiaries after excluding therefrom such amounts as shall represent equity interests of the Borrower in any Subsidiary or of any Subsidiary in the Borrower or in any other Subsidiary.

Section 5.03. (a) Except as the Bank shall otherwise agree, the Borrower shall take all such action as necessary to maintain:

- (i) a ratio between its available earnings and the aggregate of all interest, premiums and other charges on its debt of no less than 1.2 to 1;
- (ii) administrative costs at a level not exceeding 1.5% of its outstanding loans;
- (iii) arrears over 12 months due at a level not exceeding 0.4% of its outstanding loans; and
- (iv) a provision for contingencies equal to no less than 0.4% of its outstanding loans.

(b) For the purposes of this Section:

- (i) "administrative costs" means all revenue costs connected with the day-to-day operations of the Borrower relating to staff, establishment and other operating expenses, but shall exclude capital expenditure, depreciation relating to such capital expenditure, deferred expenses and provision for contingencies;
- (ii) "available earnings" means the aggregate income of the Borrower during the period to which the accounts relate in accordance with the requirements of any applicable law of the Guarantor prevailing from time to time, less administrative costs associated with the generation of such income; and
- (iii) "provision for contingencies" means a provision created for setting off estimated future losses which are presently of a contingent nature and

which may arise in the ordinary course of business.

Section 5.04. The Borrower shall take such steps satisfactory to the Bank as shall be necessary to protect itself against the risk of loss resulting from changes in the rates of exchange between the currencies used in its operations.

ARTICLE VI

Remedies of the Bank

Section 6.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional events are specified:

(a) any part of the principal amount of any loan to the Borrower having an original maturity of one year or more shall, in accordance with its terms, have become due and payable in advance of maturity as provided in the relative contractual instruments, or any security for any such loan shall have become enforceable;

(b) a material change shall have been made in the Policy Statement; and

(c) a resolution shall have been passed for the dissolution or liquidation of the Borrower.

Section 6.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified, namely, that any event specified in paragraphs (a), (b) or (c) of Section 6.01 shall occur.

ARTICLE VII

Effectiveness

Section 7.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VIII

Representative of the Borrower; Addresses

Section 8.01. The Chairman of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

For the Borrower:

Housing Development Finance Corporation Limited
Ramon House

169 Backbay Reclamation
Bombay 400 020, India

Cable address:

HOUSCORP
Bombay

Telex:

HDFC-6762

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ A. Karaosmanoglu
Regional Vice President
Asia

HOUSING DEVELOPMENT FINANCE
CORPORATION LIMITED

By /s/ N. Misra
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Housing Mortgage Loans	248,400,000	30%
(2) Equipment and materials for Part B of the Project	900,000	100% of foreign expenditures, 100% of local expenditures (ex- factory cost) and 60% of local ex- penditures for other items pro- cured locally
(3) Consultants' services and training for Part B of the Project	700,000	100%

TOTAL

250,000,000

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Guarantor for goods or services supplied from the territory of any country other than that of the Guarantor; and

(b) the term "local expenditures" means expenditures in the currency of the Guarantor or for goods or services supplied from the territory of the Guarantor.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$25,000,000, may be made in respect of Category (1) on account of payments made for expenditures before that date but after October 1, 1987;

(b) payments made for expenditures in excess of \$150,000,000 in respect of Category (1) unless: (i) the Bank is satisfied that the National Housing Bank is implementing specific proposals to: (A) regulate financial standards and operating procedures of housing finance institutions in India; and (B) promote resource mobilization instruments to encourage market-oriented intermediation in the housing finance sector; and (ii) the Sitting Committee has agreed upon and submitted to the Insurance Department of the Ministry of Finance recommendations relating to establishment of a mortgage insurance system and a system of adjudication for mortgage claims; and

(c) payments made for expenditures in respect of Category (1) in excess of 50% in each tranche for Housing Mortgage Loans to beneficiaries with a monthly income exceeding Rs 1,700 (using a 1987 calendar year base), adjusted each calendar year with reference to the consumer price index in India.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (i) expand the Borrower's sphere of operations to a wider geographical area and to a wider group of middle and low-income beneficiaries; (ii) support the Borrower's institutional development; and (iii) develop a supportive regulatory framework to ensure the financial integrity of housing finance institutions and the capacity to mobilize resources at market rates for housing finance.

The Project consists of the following Parts, subject to such modifications thereof as the Bank and the Borrower may agree upon from time to time to achieve such objectives:

Part A: Housing Mortgage Loans

The carrying out of a program of Housing Mortgage Loans to qualified beneficiaries to assist in the financing of construction or purchase of housing units.

Part B: Technical Assistance

- (i) carrying out training and manpower development programs;
- (ii) utilization of consultants' services for organizational development;
- (iii) deployment of management control systems and computer systems; and
- (iv) supporting the Borrower's technical assistance program to new housing finance institutions for start-up activities and establishment of procedures and controls.

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The Project is expected to be completed by March 31, 1991.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each May 1 and November 1	
beginning November 1, 1993 through November 1, 2007	8,335,000
On May 1, 2008	8,285,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

The following premiums are specified for the purposes of Section 3.04 (b) of the General Conditions:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the balance outstanding on the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than 11 years before maturity	0.55
More than 11 years but not more than 16 years before maturity	0.80

More than 16 years but not more than 18 years before maturity	0.90
More than 18 years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: International Competitive Bidding

Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in India may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

Contracts for equipment and materials estimated to cost the equivalent of \$50,000 each or less shall be procured under contracts awarded in accordance with the Borrower's procedures satisfactory to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for equipment under Part B of the Project estimated to cost the equivalent of \$500,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 5.01 (c)(ii) of this Agreement.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

In order to assist the Borrower in carrying out Part B of the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 5

Terms and Conditions for Housing Mortgage Loans

Except as the Bank and the Borrower shall otherwise agree, the following terms and conditions shall be included in the Borrower's lending criteria in force from time to time:

1. Eligibility Criteria: The Borrower's Housing Mortgage Loans shall be available to individuals and entities who can demonstrate their repayment capacity.
 2. Purpose: Housing Mortgage Loans shall be utilized for the acquisition or construction of residential units meant for use by the applicant. Such units may be located anywhere in India. The Borrower's finance shall not be available for resort houses.
 3. Eligible Amount: The maximum Housing Mortgage Loan for a residential unit shall not normally exceed Rs 250,000 or 70% of the cost of the residential unit, whichever is lower. The eligible amount shall be determined by the repayment capacity of the applicant taking into consideration factors including age, income, personal guarantees, savings history, assets and liabilities. The eligible amount shall generally be determined to ensure that the installment: income ratio is approximately 30%. For short periods of time and in other defined circumstances a fixed obligation income ratio of up to 35% may be permitted.
 4. Interest Rate: Housing Mortgage Loans shall be at prevailing market interest rates in India.
 5. Title: The title to the residential unit to be financed by the Borrower shall normally be free from any encumbrances, and shall be the standard security for the Housing Mortgage Loan.
 6. Appraisal: The Borrower shall conduct a thorough appraisal of the savings history of the applicant's assets, liabilities, income, number of dependents, property details and sources of own contribution. A technical appraisal shall be conducted prior to approval of the Housing Mortgage Loan in case such Loan is for acquisition of an existing residential unit which is more than five years old.
 7. Loan Agreement: Prior to disbursement, the applicant shall be required by the Borrower to execute a loan agreement, promissory note and a letter of declaration and indemnity.
 8. Amortization: The repayment period for a Housing Mortgage Loan shall be at least seven years but shall not exceed twenty years, the normal period being about 15 years.
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