

CONFORMED COPY

LOAN NUMBER 3030 CH

(Second Housing Sector Project)

between

REPUBLIC OF CHILE

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated May 4, 1989

LOAN NUMBER 3030 CH

LOAN AGREEMENT

AGREEMENT, dated May 4, 1989, between REPUBLIC OF CHILE (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project; 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) "MINVU" means the Ministerio de Vivienda y Urbanismo, the Ministry of Housing and Urbanism of the Borrower, including its regional operating authorities denominated Servicios de Vivienda y Urbanizacion (SERVIU);

(b) "U.F." means Unidad de Fomento, a monetary reference unit of the Borrower readjusted daily in accordance with the provisions of Decreto Supremo No. 40 (Hacienda), dated January 2, 1967, as amended to the date of this Agreement;

(c) "House" means a house or a housing unit of a residential building;

(d) "Beneficiaries" means, collectively, any individual with juridical capacity to exercise rights and assume obligations in accordance with the laws of the Borrower and who has been selected to purchase a House or receive financial assistance, or has purchased a House or received financial assistance, under any of MINVU's Programs or MINVU's Loan Programs, as hereinafter defined;

(e) "MINVU's Basic Housing Program" means the housing program of the Borrower approved by Decreto Supremo No. 62 (V.yU.), published in Diario Oficial on June 20, 1984, as amended to the date of this Agreement and as may be further amended from time to time in consultation with the Bank;

(f) "MINVU's Public/Private Partnership Program" means the housing program of the Borrower approved by Decreto Supremo No. 235 (V.yU.), published in Diario Oficial on February 6, 1986, as amended to the date of this Agreement and as may be further amended from time to time in consultation with the Bank;

(g) "MINVU's Unified Subsidy Program" means the housing finance program of the Borrower approved by Decreto Supremo, No. 44 (V.yU.) published in Diario Oficial on April 9, 1988, as amended to the date of this Agreement and as may be further amended from time to time in consultation with the Bank;

(h) "MINVU's Rural Subsidy Program" means the housing finance program of the Borrower approved by Decreto Supremo, No. 167 (V.yU.) published in Diario Oficial on October 4, 1986, as amended to the date of this Agreement and as may be further amended from time to time in consultation with the Bank;

(i) "MINVU's Upgrading Program" means the housing program of the Borrower to improve the stock of existing Houses to be approved by the Borrower pursuant to Section 3.09 and which shall be acceptable to the Bank, as said program may be further amended from time to time in consultation with the Bank;

(j) "MINVU's Programs" mean, collectively, MINVU's Basic Housing Program, MINVU's Public/Private Partnership Program, MINVU's Unified Subsidy Program, MINVU's Rural Subsidy Program, and MINVU's Upgrading Program;

(k) "MINVU's Loan Programs" mean, collectively, any housing program of MINVU under which MINVU does or may make a loan directly to a Beneficiary including MINVU's Basic Housing Program and MINVU's Upgrading Program in all cases in which MINVU does or may make a loan directly to a Beneficiary;

(l) "Loan Program Awards" mean, collectively, loans, subsidies and any other financial assistance granted to Beneficiaries under any of MINVU's Loan Programs, financed from the proceeds of the Loan;

(m) "Loan Program Beneficiaries" mean, collectively, Beneficiaries of the Loan Program Awards;

(n) "Loan Program Payments" mean any payment obligations of any of the Loan

Program Beneficiaries under the respective Loan Program Award;

(o) "Legislation" means Decreto Supremo No. 62 (V.yU.), published in Diario Oficial on June 20, 1984, Decreto Supremo No. 235 (V.yU.), published in Diario Oficial on February 6, 1986, Decreto Supremo No. 44, (V.yU.) published in Diario Oficial on April 9, 1988, Decreto Supremo No. 167 (V.yU.), published in Diario Oficial on October 4, 1986, and the Decreto Supremo or other governmental action establishing MINVU's Upgrading Program, as amended to the date of this Agreement, and any legislation of the Borrower including, without limitation, constitutional provisions, statutes, laws, legislative decrees, decree-laws, decrees, regulations, and any other legal provision of a similar nature, directly or indirectly related to the housing sector of the Borrower;

(p) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(q) "Peso" means the currency unit of the Borrower;

(r) "Banco Central" means the Banco Central de Chile, the central bank of the Borrower;

(s) "Level 1 of MINVU's Basic Housing Program" means the part of MINVU's Basic Housing Program consisting of construction and financing of Houses with a living area between 28 and 35 square meters; and

(t) "BEC" means Banco del Estado de Chile.

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 this Agreement, an amount in various currencies equivalent to two hundred million dollars (\$200,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement 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 the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special account in the Banco Central on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1993 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower 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 per cent ($3/4$ 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 Borrowings 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 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 November 15 and May 15 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, acting through MINVU in respect of Part A and Parts B.1 (b), B.2, B.4, B.5 and, when applicable, Part B.3 of the Project, and acting through its Superintendencia de Bancos e Instituciones Financieras in respect of Parts B.1 (a) and, when applicable, Part B.3 of the Project, all with due diligence and efficiency and in conformity with appropriate administrative, financial, land development and housing practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. The Borrower shall allocate the funds to be provided to the SERVIUS under MINVU's Programs in a manner, acceptable to the Bank, which takes into account the collection efficiency of each SERVIU in respect of the housing loan portfolio of such SERVIU.

Section 3.03. (a) The Borrower agrees that it shall throughout the execution of the Project take all necessary action, including provision of all necessary facilities, staff and other resources to permit the taking of prompt judicial action in respect of all debtors in default of their loans to the SERVIUS under the housing programs of MINVU and all debtors in default of their complementary loans provided by BEC or other bank or banks, as the case may be, in connection with said housing programs.

(b) Without prejudice to the generality of Section 3.03 (a) above, the Borrower agrees that it shall throughout the execution of the Project maintain, through contractual provisions and otherwise, the right to initiate foreclosure proceedings in respect of any loan secured by a mortgage, granted by MINVU to a Beneficiary under any of MINVU's Programs, as soon as any payment of principal, interest or other charges on such loan shall have been ninety (90) days in arrears.

Section 3.04. The Borrower shall not commence, or allow to be commenced, any process involving a general renegotiation of loans made under MINVU's Programs, or of payment incentives in respect of such loans, except as the Bank may otherwise agree by written notice to the Borrower.

Section 3.05. (a) The Borrower agrees that the collection efficiency targets of MINVU and the SERVIUS shall be the following:

(i) the total number of Loan Program Beneficiaries who are in arrears for less than one hundred twenty (120) days on their Loan Program Payments shall constitute: (A) at least 80% of the total number of Loan Program Beneficiaries in the year 1989 and 1990 and in each quarter of such years, (B) at least 85% of the total number of Loan Program Beneficiaries in the year 1991 and in each quarter of such year, and (C) at least 90% of the total number of Loan Program Beneficiaries in the year 1992 and in each quarter of such year and in each year and quarter thereafter; and

(ii) in respect of Loan Program Awards made through each SERVIU, the

total number of Loan Program Beneficiaries of the SERVIU who are in arrears for less than one hundred twenty (120) days on their Loan Program Payments shall constitute: (A) at least 70% of the total number of Loan Program Beneficiaries of the SERVIU in the year 1989 and 1990 and in each quarter of such years, (B) at least 75% of the total number of Loan Program Beneficiaries of the SERVIU in the year 1991 and in each quarter of such year, and (C) at least 80% of the total number of Loan Program Beneficiaries of the SERVIU in the year 1992 and in each quarter of such year and in each year and quarter thereafter.

(b) Not later than each April 30, July 31, October 31 and January 31, the Borrower shall provide to the Bank information, satisfactory to the Bank, concerning (i) the Borrower's compliance with the requirements established for MINVU and each SERVIU in the foregoing paragraph (a) in respect of the quarter ending March 31, June 30, September 30 and December 31, respectively, and (ii) all investments made by the Borrower under MINVU's Programs during such quarter, specifying the investments made by MINVU and each SERVIU in respect of each of MINVU's Programs.

(c) Not later than January 31 in each year, the Borrower shall provide to the Bank information, satisfactory to the Bank, concerning (i) the Borrower's compliance with the requirements established for MINVU and each SERVIU in paragraph (a) above in respect of the immediately preceding year; and (ii) all investments made by the Borrower under MINVU's Programs during such preceding year, specifying the investments made by MINVU and each SERVIU in respect of each of MINVU's Programs.

(d) Without limitation to any provision of this Agreement, the Borrower shall, in the event that any of the information referred to in paragraphs (b) and (c) above shows that the Borrower has not met the requirements established for MINVU and each SERVIU in paragraph (a) above in respect of the year or quarter covered by such information, take all necessary measures, satisfactory to the Bank, in order to meet such requirements for each of the following years or quarters, as the case may be.

Section 3.06. The Borrower shall make available to MINVU at least 90% of all revenues arising from payments from recipients of financial assistance under all housing programs of MINVU, including all debt service payments and other payments by Beneficiaries under MINVU's Programs. All revenues made available to MINVU pursuant to the foregoing sentence shall be used for MINVU's Programs or other housing investments acceptable to the Bank.

Section 3.07. Not later than September 30 of each year prior to completion of the Project, the Borrower shall provide to the Bank for the Bank's review and comment, the proposed housing investment program of MINVU, including investments under MINVU's Programs, for the following calendar year. The Borrower agrees that its annual housing investment program for MINVU for each year during the execution of the Project shall be satisfactory to the Bank.

Section 3.08. The Borrower shall take all action necessary to ensure that its total expenditures for housing investments, including, without limitation, expenditures financed from the proceeds of the Loan, shall not exceed the equivalent of two hundred fifty million dollars (\$250,000,000) during any calendar year until the completion of the Project.

Section 3.09. The Borrower shall take the appropriate governmental action, satisfactory to the Bank, to enable MINVU's Upgrading Program to become effective starting not later than November 1, 1989.

Section 3.10. The Borrower shall carry out the Housing Subsidy Action Plan set forth in Schedule 6 to this Agreement.

Section 3.11. (a) The Borrower shall by means of its agreements with BEC, dated May 2, 1988 and May 18, 1987, (herein referred to as the "BEC Agreements") or by means of arrangements, satisfactory to the Bank, with one or more other banks, ensure until the completion of the Project the full availability of mortgage credits to qualifying Beneficiaries under MINVU's Unified Subsidy Program and MINVU's Public/Private Partnership Program.

(b) The Borrower shall use its best efforts to amend the BEC Agreements or to enter into an agreement with one or more other banks, concerning the granting by BEC or such banks, as the case may be, of mortgage credits to the Beneficiaries of MINVU's Basic Housing Program (other than Level 1 of said Program). So long as the Borrower has not entered into such amendment or such agreement and to the extent that such amendment or agreement does not ensure the full availability of the respective mortgage credits to qualifying Beneficiaries, the Borrower through MINVU shall grant such credits to qualifying Beneficiaries.

Section 3.12. Loans made to the Beneficiaries under MINVU's Programs during the execution of the Project shall be indexed using a method acceptable to the Bank based on either (i) a U.F. adjustment system, in which the loan shall be denominated in U.F. and all payments of interest, principal and other charges on the loan shall be calculated on the outstanding principal expressed in U.F. or (ii) such other system or systems which the Bank has accepted by written notice to the Borrower prior to the implementation thereof.

Section 3.13. (a) For purposes of carrying out the studies under Part B.1 (a) of the Project, the Borrower shall establish by June 30, 1989 an advisory committee acceptable to the Bank (hereinafter referred to as the "Working Group"). The Borrower shall cause its Superintendencia de Bancos e Instituciones Financieras to coordinate the activities of the Working Group.

(b) The Working Group shall have functions and responsibilities satisfactory to the Bank, which shall include the analysis of potential changes and developments of the mortgage market of the Borrower within the context of the Borrower's overall financial market development and under terms of reference satisfactory to the Bank. The Working Group shall from time to time, upon the request of the Bank, provide progress reports of its work to the Bank. A report of its findings and recommendations shall be due not later than June 30, 1990.

(c) The Borrower shall afford the Bank a reasonable opportunity to comment on the findings and recommendations of the Working Group, including those referred to in paragraph (b) above, and shall, to the extent appropriate to meet the objectives of the Project, and taking into account the Bank's comment thereon, prepare programs or plans of action to carry out such recommendations. The Borrower undertakes to carry out such programs or plans of action in a manner which will enable the meeting of the objectives of the Project. The Borrower through its Superintendencia de Bancos e Instituciones Financieras shall at the Bank's request furnish to the Bank reports on the implementation of such programs and plans of action.

Section 3.14. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for 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.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained separate records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof, including, without limitation, Project accounts to be maintained at MINVU and each SERVIU.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) have (A) all records, accounts and financial statements of each SERVIU in respect of at least one fiscal year during the

execution of the Project, and (B) all records, accounts and financial statements of the SERVIU of the Metropolitan Region of Santiago, Region V and Region VIII in respect of each fiscal year during the execution of the Project, audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank.

(iii) furnish to the Bank as soon as available, but in any case not later than four months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iv) furnish to the Bank such other information concerning said records and accounts and 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 or cause to be maintained, in accordance with paragraph (a) of this Section, separate 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.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional events are specified:

(a) the Legislation shall have been amended, suspended, abrogated, repealed or waived so as to, in the opinion of the Bank, materially and adversely affect the execution of the Project;

(b) any of the annual or quarterly collection efficiency targets established for MINVU and the SERVIUs in Section 3.05 (a) of this Agreement has not been met.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely that the event specified in either paragraph (a) or (b) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The date August 3, 1989 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Housing and Urbanism of the Borrower (Ministro de Vivienda y Urbanismo) is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministerio de Vivienda y Urbanismo
Avenida Libertador Bernardo
O'Higgins 924
Santiago, Chile

Cable address:

Telex:

240942-MINVU CL

For the Bank:

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

Cable address:

Telex:

INTBAFRAD

Washington, D.C.

440098 (ITT)

248423 (RCA) or

64145 (WUI)

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.

REPUBLIC OF CHILE

By /s/ Gustavo C. Montero S.

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Ping-Cheung Loh

Acting Regional Vice President
Latin America and the Caribbean

Countersigned on behalf of
the Controller General
and of the Treasurer
General of the Republic
of Chile

By /s/ Octavio Errazuriz

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) Construction or financing of new Houses, as the case may be, under Part A.1 and Part A.2 of the Project	108,700,000	100% of amounts paid by MINVU up to a maximum amount of \$1,400 equivalent per House or subsidy certificate, as applicable
(2) Financing of new Houses belonging to Level 1 of MINVU's Unified Subsidy Program, as such Level is set forth in Schedule 6, under Part A.3 of the Project; and financing of new Houses under Part A.4 of the Project	63,000,000	100% of amounts paid by MINVU up to a maximum of \$1,400 equivalent per House or subsidy certificate, as applicable
(3) Provision of improvements for existing Houses under Part A.5 of the Project	1,300,000	50%, up to a maximum of \$800 equivalent per House
(4) Expenditures for studies, training and technical assistance, including consultants' services, under Parts B.1, B.2 and B.3 of the project	1,300,000	100% of foreign expenditures and 75% of local expenditures
(5) Goods under Part B.4 of the Project	500,000	100% of foreign expenditures and 70% of local expenditures
(6) Civil Works under Part B.5 of the Project	200,000	50%
(7) Unallocated	25,000,000	
TOTAL	200,000,000	

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 Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

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

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 \$20,000,000, may be made in respect of Categories (1) through (6) on account of payments made for expenditures before that date but after June 30, 1988; (b) payments in respect of Categories (1) through (3) of the table set forth in paragraph 1 above, unless the Bank shall have received evidence, satisfactory to the Bank, of (i) the construction of the House in question having been completed pursuant to the respective construction contract, in the case of expenditures under Part A.1 and, when applicable, Part A.2 of the Project, and (ii) the payments made by MINVU under its grant certificate and other financial assistance in connection with Parts A.3, A.4, A.5 and, when applicable, Part A.2 of the Project; and (c) payments in respect of the construction or financing of any House the cost of which exceeds the equivalent of 400 U.F..

4. Notwithstanding the provisions of paragraphs 1 and 3 above, and without limitation to the other remedies of the Bank under this Agreement, no withdrawals shall be made in respect of any loans granted under MINVU's Programs through any SERVIU unless the Bank shall have received evidence satisfactory to it to the effect that the SERVIU in question has met the minimum requirements for collection efficiency established in Section 3.05 (a) (ii) in respect of the quarter when the expenditures were incurred with respect to which a withdrawal is requested.

SCHEDULE 2

Description of the Project

The objectives of the Project are to support the efforts of the Borrower to: (a) increase the stock of housing for its low income population; (b) offer a greater variety of new housing types to meet the needs and preferences of its low income population; (c) introduce programs to upgrade the existing housing stock for the benefit of existing residents; (d) improve cost recovery through better mortgage collections and reduced subsidies; (e) improve the efficiency and mobilization of private housing finance resources; and (f) maintain its basic housing policies of (i) keeping governmental intervention in the housing sector at the minimum necessary, (ii) focussing the governmental participation in the housing sector on assistance to the poor, (iii) providing direct and explicit subsidies through the Borrower's budget, (iv) emphasizing transparency in the selection process of the Beneficiaries for purposes of its housing programs, (v) encouraging savings for home-ownership and home-ownership per se, and (vi) assuring the long-term viability of a market-based housing finance system.

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

Part A: Construction of, and financial assistance for the construction of, approximately 177,000 new Houses, and improvements for, and financial assistance for the improvement of, approximately 36,000 existing Houses under MINVU's Programs during the period of three years starting the date of this Agreement, as follows:

1. Development of land, design and construction of Houses, and financial assistance to Beneficiaries for purchase of a House under MINVU's Basic Housing Program.

2. Development of land, construction of Houses, and financial assistance to Beneficiaries for purchase of a House under MINVU's Public/Private Partnership Program.
3. Financial assistance to Beneficiaries for purchase of a House under MINVU's Unified Subsidy Program.
4. Financial assistance to Beneficiaries for purchase of a House under MINVU's Rural Subsidy Program.
5. Rehabilitation of and improvements to existing Houses, financial assistance to Beneficiaries for such rehabilitation and improvements, and assistance to Beneficiaries for the purpose of obtaining full legal title to their Houses, under MINVU's Upgrading Program.

Part B: Studies, technical assistance, training, office technology improvements and experimental demonstration projects as follows:

1. Studies to: (a) improve the institutional arrangements, instruments, policies, rules and regulations for the housing finance market, and (b) design and demonstrate the feasibility of new approaches to housing and housing improvements for poor residents.
2. Technical assistance for the development of new management accounting systems for the SERVIUs; and for the purposes of performing audits of the Project accounts, the Special Account and the SERVIUs.
3. Annual training programs, satisfactory to the Bank, for the professional staff and management of MINVU, the SERVIUs and related public sector organizations; and seminars, promotion and dissemination of information for the private sector construction industry and related organizations; all in the areas of housing, policy planning, mortgage finance, housing construction supervision and quality control, procurement, urban development and management, and accounting, financing and auditing of housing projects.
4. Acquisition and utilization of computers and other office technology equipment for MINVU and the SERVIUs.
5. Civil works to be carried out in connection with experimental demonstration projects which demonstrate viable methods for resolving housing-related technical problems.

* * *

The Project is expected to be completed by December 31, 1992.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each May 15 and November 15 beginning November 15, 1994 through November 15, 2005	8,335,000
On May 15, 2006	8,295,000

* 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	0.18
More than three years but not more than six years before maturity	0.35
More than six years but not more than eleven years before maturity	0.65
More than eleven years but not more than fifteen years before maturity	0.88
More than fifteen years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods and works 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.1 hereof, goods manufactured in Chile 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

1. Contracts for works estimated to cost less than the equivalent of \$7,500,000, may be awarded on the basis of competitive bidding advertised locally, in accordance with procedures acceptable to the Bank.
2. Contracts for goods under Part B.4 of the Project estimated to cost the equivalent of \$20,000 or more but less than the equivalent of \$250,000 may be awarded on the basis of competitive bidding advertised locally, in accordance with procedures acceptable to the Bank.
3. Contracts for goods under Part B.4 of the Project estimated to cost less than the equivalent of \$20,000 may be procured under contracts awarded on the basis of price quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.
4. Houses included in Parts A.3 and A.4 of the Project, as well as in Part A.2 of the Project when a direct purchase of a new House by a Beneficiary is applicable, may be purchased directly by Beneficiaries through the Borrower's normal private sector housing-marketing channels.
5. Works included under Part A.5 of the Project shall be procured in a manner 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 (i) the two first contracts for works under each of Part A.1, A.2, A.5 and B.5 of the Project and for goods under Part B.4 of the Project; (ii) each contract for works under Part A of the Project estimated to cost more than the equivalent of \$3,000,000; and (iii) each contract for supervision of works under Part A.5 of the Project, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to paragraph 2 (d) of Appendix 1 to the Guidelines shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.
 - (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. Where payments for such contract are to be made out of the Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 of Appendix 1 to the Guidelines shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.
 - (c) The provisions of the preceding subparagraph (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 4.01 (c)(ii) of this Agreement.
2. The figure of 10% 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 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

Special Account

1. For the purposes of this Schedule:

(a) the term "Eligible Categories" means Categories (1) through (6) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "Eligible Expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the Eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$30,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for Eligible Expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been made out of the Special Account for Eligible Expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective Eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Loan allocated to the Eligible Categories for the Project, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to Categories (1) through (6) of the Project, shall equal the equivalent of

twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the Eligible Categories for the Project shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

SCHEDULE 6

Subsidy Action Plan

1. Unit prices for Houses produced under MINVU's Basic Housing Program and MINVU's Public/Private Partnership Program shall be set at a level sufficient to cover the market price of land, all onsite infrastructure cost, pro-rated offsite infrastructure (if applicable); superstructure cost, all applicable administrative costs; and the cost of capital during construction.

2. Capital subsidies under MINVU's Programs shall not exceed 75% of the cost of the House for any Beneficiary. Unless the Bank shall otherwise agree by written notice to the Borrower, the cost of House and the capital subsidy applicable to each Beneficiary shall be as set forth below.

MINVU's Program	Cost of House	Capital Subsidy
MINVU's Basic Housing Program Level 1	less than 215 UF1/	75% of cost
MINVU's Basic Housing Program Level 2	215-260 UF	56% of cost
MINVU's Basic Housing Program Level 3	260-300 UF	48% of cost
MINVU's Public/Private Partnership Program	less than 400 UF	80 UF

1/ Such maximum amount to be applicable in respect of the Region Metropolitana de Santiago; maximum amounts for other Regions may be higher subject to written

agreement by the Bank.

MINVU's Program	Cost of House	Capital Subsidy
MINVU's Rural Subsidy Program	less than 260 UF	80-110 UF
MINVU's Rural Subsidy Program (in respect of Houses situated in rural villages with urbanization works)	less than 400 UF	80-150 UF
MINVU's Unified Subsidy Program Level 1	less than 400 UF	120-150 UF
MINVU's Unified Subsidy Program Level 2	400-900 UF	100-130 UF
MINVU's Unified Subsidy Program Level 3	900-2000 UF	80-110 UF
MINVU's Upgrading Program	Not applicable	To be determined pursuant to Section 3.09 of this Agreement

3. Notwithstanding paragraph 2 above, the Borrower may always award a capital subsidy to any Beneficiary which is less than the subsidy set forth in the Schedule in said paragraph 2.

4. Notwithstanding paragraphs 2 and 3 above, the average capital subsidy awarded per Beneficiary under MINVU's Unified Subsidy Program shall be reduced by at least five (5) percent in the year 1990, compared to the average capital subsidy awarded per Beneficiary under such Program in the year 1989. In the year 1991 and each year thereafter during the execution of the Project, the average capital subsidy under such Program shall be reduced further by at least five (5) percent, compared to the average capital subsidy awarded in the immediate preceding year. The Bank may by written notice to the Borrower agree to an annual reduction of less than five (5) percent in said average capital subsidy if the Borrower, not later than September 30 of the year for which a lesser subsidy reduction is requested, provides to the Bank evidence, satisfactory to the Bank, that real incomes have decreased, or construction costs or market interest rates have increased, in such a way as to affect the overall affordability or the effective demand for Houses.

5. Each recipient of financial assistance under MINVU's Rural Housing Program shall be obligated to make a down payment equivalent to at least five (5) percent of the cost of the House. Such down payment shall be made either in cash, or by providing the equivalent amount of labor.

6. The Borrower shall, in a manner satisfactory to the Bank, reduce its overall and per unit interest rate subsidies in connection with MINVU's Unified Subsidy Program, MINVU's Public/Private Partnership Program, and, when applicable, MINVU's Basic Housing Program.

