

LOAN NUMBER 2947 ME

Fovi Project Agreement

(Housing Finance Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

BANCO DE MEXICO

Dated September 28, 1988

LOAN NUMBER 2947 ME

FOVI PROJECT AGREEMENT

AGREEMENT, dated September 18, 1988, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and BANCO DE MEXICO (Banxico), as trustee for Fondo de Operacion y Financiamiento Bancario a la Vivienda (FOVI).

WHEREAS (A) by the Loan Agreement of even date herewith between BANCO NACIONAL DE OBRAS Y SERVICIOS PUBLICOS, S.N.C. (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount in various currencies equivalent to three hundred million dollars (\$300,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that Banxico agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(B) by an agreement (the Guarantee Agreement) of even date herewith between the UNITED MEXICAN STATES (the Guarantor) and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan and to undertake such other obligations as are set forth in the Guarantee Agreement;

(C) by a subsidiary loan agreement to be entered into between the Borrower and Banxico, the proceeds of

the Loan provided for under the Loan Agreement will be made available to Banxico on the terms and conditions set forth in said subsidiary loan agreement; and

WHEREAS Banxico, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree As follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Preamble to, and Section 1.02 of, the Loan Agreement and the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) Banxico declares its commitment to the objectives of the Project and to this end, shall carry out Parts A and B.2 of the Project described in Schedule 2 to the Loan Agreement with due diligence and efficiency, in conformity with sound technical and financial practices, and in accordance with the provisions of the Schedule to this Agreement and the Mandatory Housing Lending Regulations, and shall make available, in a timely manner, such funds and other resources as shall be required for the execution of Parts A and B.2 of the Project.

(b) Banxico shall enter into and duly perform all of its obligations under the Subsidiary Loan Agreement referred to in Section 3.01 of the Guarantee Agreement. Except as the Bank shall otherwise agree, Banxico shall not change or fail to enforce any provision of such Subsidiary Loan Agreement.

(c) Banxico shall, for purposes of carrying out Parts A and B.2 of the Project, open and maintain in pesos, a Project Account on terms and conditions satisfactory to the Bank. Expenditures from such account shall be made exclusively for onlending of funds to Financial Intermediaries for purposes of making FOVI Subloans.

Section 2.02. (a) Banxico undertakes that unless the Bank shall otherwise agree, each FOVI Subloan shall be made on terms whereby Banxico shall, by a written agreement with the Financial Intermediary, obtain rights and secure obligations adequate to protect the interests of the Bank and FOVI, including, without limitation, the rights and obligations set forth in Section 3.01 (a) (iii) of the Loan Agreement and the Schedule to this Agreement.

(b) Banxico shall cause each Financial intermediary to exercise its rights in relation to each FOVI Subloan in such manner as to: (i) protect the interests of the Bank, Banxico and FOVI; (ii) comply with its obligations in respect of each FOVI Subloan; and (iii) achieve the purposes of the Project.

Section 2.03. (a) Banxico shall, on a twice-yearly basis and at the request of any party, exchange views with the Bank with regard to the progress of the Program, the Project, the performance of its obligations under this Agreement and other matters relating to the purposes of the Loan.

(b) Banxico shall promptly inform the Bank of any condition which interferes, or threatens to interfere with, the progress of the Project, the accomplishment of the purposes of the Loan, or the performance by Banxico of its obligations under this Agreement.

Section 2.04. Banxico shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance, and land acquisition, respectively) in respect of Parts A and B.2 of the Project.

Section 2.05. Except as the Bank shall otherwise agree, procurement of the goods and works required for Parts A and B.2 of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of paragraph 1 (d) of the Schedule to this Agreement.

Section 2.06. Banxico shall:

(a) by March 31, 1989, carry out and complete the test-marketing program referred to in Part B.2 of the Project;

(b) by June 30, 1989, review the results of the program with the Guarantor and the Bank; and

(c) promptly thereafter take all measures, necessary or appropriate, to finance Test Houses consistent with the results of such program.

Section 2.08. (a) Banxico shall, within twelve months of the Effective Date of the Loan, and at such other times as the Bank shall reasonably request, review with the Bank the selling prices in relation to market conditions prevailing for Eligible Houses in the area in which such Eligible Houses were sold.

(b) If, as a result of any such review, it is determined by the Bank that additional measures are necessary or appropriate to ensure that such selling prices reflect market conditions, then Banxico shall take all such measures within a reasonable period of time.

Section 2.09. Banxico shall promptly give notice to the Bank of any changes in:

(i) the provisions of the Mandatory Housing Lending Regulations related to the making of FOVI Subloan; or

(ii) the FOVI Trust Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) Banxico shall maintain records and accounts adequate to reflect in accordance with sound accounting practices FOVI's operations and financial condition, including separate records and accounts

reflecting the resources and expenditures in respect of the Project.

(b) Banxico shall:

- (i) have the accounts referred to in (a) above, including the Project Account, and financial statements of FOVI (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 and qualified auditors;
- (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) a certified copy of such 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 accounts and financial statements as well as the audit thereof and said records, 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, Banxico 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.

ARTICLE IV

Effective Date; Termination

Section 4.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement

becomes effective.

Section 4.02. This Agreement and all obligations of the Bank and of Banxico thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms.

ARTICLE V

Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given, or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing.

Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

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)

FAX: (202) 477-6391

For Banxico:

Banco de Mexico
5 de Mayo No. 2
06059 Mexico, D.F. Mexico

Cable address:

BANXICO
Mexico 1, D.F. Mexico

FAX: 512-9990

Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of Banxico, may be taken or executed by its Director General or such other person or persons as the Director General shall designate in writing, and Banxico shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, have caused this Agreement to be signed in their respective names in Berlin, Federal Republic of Germany,

as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By

Regional Vice President
Latin America and the Caribbean

BANCO DE MEXICO
(as TRUSTEE for FONDO DE OPERACION Y
FINANCIAMIENTO BANCARIO A LA VIVIENDA)

By

Authorized Representative

SCHEDULE

Terms and Conditions of FOVI Subloans

1. General terms and conditions of FOVI Subloans, Except as provided below in paragraph 2 hereof, and unless otherwise agreed by the Bank, all FOVI Subloans shall be made in accordance with the Mandatory Housing Lending Regulations and specifically with Telex Circular No. 28/88.
2. Specific terms and conditions of FOVI Subloans:
 - (a) Amount Financed
 - (i) The amount of a Construction Subloan shall not exceed 80% of the selling price of an Eligible House, multiplied by the number of Eligible Houses being constructed.
 - (ii) The amount of a Purchase Subloan shall not exceed 90% of the selling price of an Eligible House.

(b) Amortization

Repayments of FOVI Subloans shall be made in monthly payments determined and adjusted in accordance with the Mandatory Housing Lending Regulations. In any event, the total repayment period of a FOVI Subloan shall not exceed 20 years.

(c) Interest Rate

The annual interest rates charged on Construction Subloans and on Purchase Subloans shall be the FOVI Subloan Interest Rate, which shall be adjusted in accordance with the criteria established in the Mandatory Housing Lending Regulations.

(d) Procurement

Goods and works required to construct Eligible Houses financed by FOVI Subloans utilizing the proceeds of the Loan shall be procured at reasonable prices and in accordance with commercial practices, satisfactory to the Bank.

(e) Interest Capitalization

No FOVI Subloan shall be subject to an Interest Capitalization Limitation.

3. FOVI Subloans shall be made pursuant to written agreements between a Financial Intermediary and an Eligible Beneficiary.

(a) Each such agreement shall establish an Eligible Beneficiary's obligation: (i) in the case of the construction of an Eligible House or Eligible Houses, to carry out works with due diligence and efficiency, and in conformity with appropriate engineering practices, to ensure that required goods and works are purchased in accordance with the provisions of paragraph 2 (d) of this Schedule, and that such goods and works are used exclusively for the purposes of constructing such Eligible Houses; and (ii) in the case of acquisition of an Eligible House, to purchase such Eligible House for a price not exceeding the price range to which such Eligible Beneficiary is entitled pursuant to the Mandatory Housing Lending Regulations, and to ensure that the Eligible House is actually purchased by such Eligible Beneficiary.

(b) The agreement for a FOVI Subloan shall also include the rights of the Financial Intermediary and Banxico:

(i) to inspect, by themselves or jointly with representatives of the Bank, if the Bank shall so request, such goods, sites and works, and the Eligible House financed under the FOVI Subloan;

(ii) to obtain from the Eligible Beneficiary all such information as the Bank or Banxico shall reasonably request; and

(iii) to suspend or terminate the right of the Eligible Beneficiary to use the proceeds of the FOVI Subloan, or to accelerate its maturity, upon failure by the Eligible Beneficiary to perform any of its obligations under such agreement.