

CONFORMED COPY

LOAN NUMBER 4071 JO

Project Agreement

(Housing Finance and Urban Sector Reform Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

SECONDARY MORTGAGE FACILITY

Dated September 4, 1996

LOAN NUMBER 4071 JO

PROJECT AGREEMENT

AGREEMENT, dated September 4, 1996, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and the SECONDARY MORTGAGE FACILITY (SMF).

WHEREAS (A) by the Loan Agreement of even date herewith between The Hashemite Kingdom of Jordan (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount in various currencies equivalent to twenty million dollars (\$20,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the SMF agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(B) by a subsidiary loan agreement to be entered into between the Borrower and the SMF, a portion of the proceeds of the loan provided for under the Loan Agreement will be relented to the SMF on the terms and conditions set forth in said Subsidiary Loan Agreement; and

WHEREAS the SMF, 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 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. The SMF declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out Part A of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial and housing practices and in accordance with the Program, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for Part A of the Project.

Section 2.02. (a) For the purposes of carrying out Part A (1) of the Project, the SMF shall relend to the PFIs the equivalent of the proceeds of the Subsidiary Loan allocated from time to time to Category (1) of the table set forth in paragraph 1 of Schedule 1 to the Loan Agreement, under Participation Agreements to be entered into between the SMF and each of the PFIs, under terms and conditions which shall have been approved by the Bank and which shall include those set forth in Schedule 2 to this Agreement.

(b) the SMF undertakes that only Mortgage Loans made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 3 to this Agreement will be eligible for financing under the Participating Agreements.

(c) the SMF shall exercise its rights in relation to each PFI under the respective Participation Agreement in such manner as to: (i) protect the interests of the Bank and of the SMF; (ii) comply with its obligations under this Agreement and the Subsidiary Loan Agreement; and (iii) achieve the purposes of the Project.

Section 2.03. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for Part A (2) of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 1 to this Agreement.

Section 2.04. (a) The SMF 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 the Project Agreement and Part A of the Project.

(b) For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the SMF shall:

- (i) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for achieving the objectives of Part A of the Project; and
- (ii) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

Section 2.05. The SMF shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Bank shall otherwise agree, the SMF shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Loan Agreement or any provision thereof.

Section 2.06. Except as the Bank shall otherwise agree, the Articles of Association of the SMF shall not be amended.

Section 2.07. (a) Except as the Bank shall otherwise agree, the

terms of all of the SMF's loans to PFI's, whether financed by the Subsidiary Loan or not, shall be the same as those set forth in Schedule 2 to the Project Agreement.

(b) Except as the Bank shall otherwise agree, the terms of all of the mortgage loans to be refinanced by the SMF shall be made in accordance with paragraphs 2, 3 (a), 3 (b) and 4 of Schedule 3 to the Project Agreement.

Section 2.08. (a) The SMF shall, at the request of the Bank, exchange views with the Bank with regard to the progress of Part A of the project, the performance of its obligations under this Agreement and under the Subsidiary Loan Agreement, and other matters relating to the purposes of the Loan.

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

ARTICLE III

Management and Operations of SMF

Section 3.01. The SMF shall carry on its operations and conduct its affairs in accordance with the Program and sound administrative, financial and housing practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The SMF shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition and the operations, resources and expenditures in respect of the Project.

(b) The SMF shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section, and 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 (6) months after the end of each such year, (A) certified copies of its financial statements for such year as so audited (B) the report of such audit by said auditors of such scope and in such detail as the Bank shall have reasonably requested and (C) the auditor's management letter or other reports which the auditors may provide to SMF management; 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.

ARTICLE V

Effective Date; Termination; Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 5.02. This Agreement and all obligations of the Bank and of the SMF thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify the SMF thereof.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. 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:

248423 (MCI)
64145 (MCI) or

For the SMF:

Chairman of the Board
Jordan Mortgage Refinancing Company
P.O. Box 37
Amman, Jordan

Cable address:

BANKMARKAZI
Amman, Jordan

Telex:

21250

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of the SMF, or by the SMF on behalf of the Borrower under the Loan Agreement, may be taken or executed by the Managing Director or such other person or persons as the Managing Director shall designate in writing, and the SMF shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. 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 duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, and Amman, Jordan as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Inder Sud

Acting Regional Vice President
Middle East and North Africa

SECONDARY MORTGAGE FACILITY

By /s/ Michel Marto
Authorized Representative

SCHEDULE 1

Procurement and Consultants' Services for Part A (2) of the Project

Section I. Procurement of Goods

Part A: General

Goods shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: Procurement Procedures

International Shopping

Goods shall be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part C: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for goods estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions 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 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Bank shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply

to: (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each; or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to: (a) the terms of reference for such contracts; (b) single-source selection of consulting firms; (c) assignments of a critical nature, as reasonably determined by the Bank; (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above; or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 2

Terms and Conditions of Participation Agreements

1. Except as the Bank shall otherwise agree, the principal terms and conditions set forth or referred to in this Schedule shall apply for the purposes of Paragraph (a) of Section 2.02 of this Project Agreement.

2. Loans to PFIs to be financed out of the proceeds of the Loan: (a) shall be denominated, and their interest, principal and other charges be payable, in Jordanian Dinars; (b) shall be collateralized by Mortgage Loans with a remaining term of at least 140 percent of the term of the loan being extended by the SMF to such PFI; and (c) shall be market determined, and in the aggregate shall be made in a manner that minimizes interest rate risk.

3. The SMF's loans to PFIs will, at the option of SMF, be for five, seven, or ten year terms, and, upon amendment of Article 141 of the Companies Act, to permit the SMF to issue debt securities for shorter periods, for three year terms, or such shorter terms as the Bank and the SMF shall agree to. The principal amount of each loan to a PFI shall be repaid in full upon maturity of such loan, without repayment of any principal before maturity.

4. A Participation Agreement may be entered into with a financial institution that is a Privately Owned Entity, duly established and operating under the laws of the Borrower, provided that the SMF shall have determined that such financial institution:

(a) is in compliance with the legal and regulatory requirements applicable to its operations, including all applicable banking or financial company laws, capital adequacy requirements, and monetary regulations;

(b) has had its financial statements, for its fiscal year preceding the year within which its respective Participation Agreement is to be entered into, audited by independent auditors with the report thereof being unqualified;

(c) has a sound financial structure and satisfactory financial performance, and the organization, management, staff and other resources required for the efficient carrying out of its operations; and

(d) has adequate technical and administrative capacity and satisfactory operating policies and procedures for appraisal and monitoring of a Mortgage Loan portfolio and for carrying out of its activities to be undertaken under the Project.

5. A Participation Agreement may be entered into with a newly established financial institution which has demonstrated, on the basis of an institutional development plan satisfactory to the SMF and the Bank, that it has the organization, management, staff and other resources required to comply with the requirements set forth in subparagraphs (c) and (d) of Paragraph 4 above.

6. Each Participation Agreement shall contain provisions pursuant to which each PFI shall:

(a) continue to be duly established and operating under the laws of the Borrower;

(b) carry out its operations in accordance with the relevant provisions of all applicable banking or financial company laws of the Borrower, capital adequacy requirements and monetary regulations;

(c) conduct its operations and affairs in accordance with sound financial principles and practices and in accordance with its constitutional instruments and statement of policy, if applicable;

(d) maintain a financial and operating policy acceptable to the SMF and the Bank and an adequate number of suitably qualified staff to enable it effectively to appraise the financial and economic feasibility of Mortgage Loans and to make such Loans to Beneficiaries in accordance with said financial and operating policy and on the basis of the criteria, procedures and principal terms and conditions set forth in Schedule 3 to this Agreement;

(e) supervise and monitor the Mortgage Loans in accordance with procedures satisfactory to the SMF, the Borrower, and the Bank.

(f) exchange views with, and furnish all such information and documentation as may be reasonably requested by the SMF, with regard to the performance of its obligations under its respective Participation Agreement, and in connection with the Mortgage Loans;

(g) promptly inform SMF of any condition which interferes or threatens to interfere with the progress of its activities under its respective Participation Agreement; and

(h) not assign, amend, abrogate or waive any of its agreements providing for Mortgage Loans, or any provision thereof, without prior approval of the SMF.

7. At the time of draw-down of the SMF's loans, each PFI shall provide to the SMF, in accordance with procedures satisfactory to the Bank, an irrevocable beneficial right and claim to Mortgage Loans equivalent to 120% of the principal amount of the loan to such PFI. Mortgage Loans will be required to have less than three months arrears at the time of pledging to the SMF. As any of the Mortgage Loans pledged as collateral by a PFI are redeemed, fall into arrears of more than three months, or have normal or early payments of principal made, such PFI shall pledge to the SMF additional Mortgage Loans or other assets approved by the SMF, in order to obtain at the end of each calendar quarter an aggregate principal value of collateral of 120% of the value of the SMF's loans to such PFI.

8. Participation Agreements shall obligate the PFI to: (i) maintain records and accounts adequate to reflect, in accordance with sound accounting practices, its operations and financial condition, including records and separate accounts regarding its activities under Part A (1) of the Project; (ii) have such records and accounts, together with its financial statements (balance sheets, statements of income and expenses and related statements), for each fiscal year audited, in accordance with generally accepted auditing standards and procedures consistently applied, by independent and qualified auditors acceptable to the SMF; (iii) furnish to SMF no 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 SMF shall have reasonably requested; and (iv) furnish to the SMF and the Borrower such information and documentation as the Borrower or SMF shall reasonably request.

9. Participation Agreements shall require the PFI to make Mortgage Loans to Beneficiaries on the terms and conditions set forth in Schedule 3 to this Agreement, and to obtain, by written contract with the Beneficiary or by other appropriate legal means: (i) mortgages as security for the Mortgage Loans and the right to take possession of the residential housing in case of noncompliance by the Beneficiaries with the terms of the Mortgage Loans; and (ii) the undertaking of the PFI to exercise, in relation to each Beneficiary, its rights under its Mortgage Loans in such manner as to protect its interests and the interests of the SMF and to accomplish the purposes of the Project.

10. Except as the Bank shall otherwise agree, provisions shall be included in each Participation Agreement that the right of a PFI to use the proceeds of its loan from the SMF shall be: (a) suspended upon failure by such PFI to perform any of its obligations under its respective Participation Agreement; and (b) terminated if such right shall have been suspended for a continuous period of 30 days.

SCHEDULE 3

Terms and Conditions of Mortgage Loans

1. The principal terms and conditions set forth or referred to in this Schedule shall apply for the purposes of paragraph (b) of Section 2.02 of this Project Agreement.

2. Each Mortgage Loan shall be made by a PFI on terms, including those relating to maturities, interest and other charges, which are in accordance with said PFIs financial and operating policies and procedures referred to in Paragraph 6 (d) of Schedule 2 to this Agreement.

3. Each Mortgage Loan shall be made by a PFI only:

(a) to a Beneficiary which shall have established to the satisfaction of said PFI that it is creditworthy;

(b) if the ratio of the Mortgage Loan to the appraised value of the property secured thereby does not exceed 80 percent;

(c) if the Mortgage Loan was made not earlier than one year of the date of the Loan Agreement; and

(d) if the housing securing the Mortgage Loan is new or newly renovated.

4. The PFI shall obtain, by written contract with the Beneficiary or by other appropriate legal means, rights adequate to protect the interests of the SMF and the PFI, including, where applicable:

(a) that each Beneficiary shall undertake to occupy or rent the housing to be acquired under the Mortgage Loan primarily for residential use; and

(b) provisions to ensure the right of the PFI upon failure by such Beneficiary to perform its obligations under its Mortgage Loan: (i) to suspend or terminate the right of such Beneficiary to the use of the proceeds of the Mortgage Loan; and (ii) to take possession of the housing secured by such Mortgage Loan.

