

**CONFORMED COPY**

**LOAN NUMBER 7229-ME**

# **Loan Agreement**

**(Affordable Housing and Urban Poverty Sector Adjustment Loan)**

**between**

**UNITED MEXICAN STATES**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated October 1, 2004**

**LOAN AGREEMENT**

AGREEMENT, dated October 1, 2004, between UNITED MEXICAN STATES (the Borrower), represented by its signatory on page 10 of this Agreement, and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received from the Borrower a letter, dated May 10, 2004, describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's housing and urban sector (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during the execution thereof; and

(B) the Borrower has carried out the measures and taken the actions described in Schedule 2 to this Agreement to the satisfaction of the Bank and has maintained a macroeconomic policy framework satisfactory to the Bank.

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 for Fixed-Spread Loans" of the Bank dated September 1, 1999, with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 41, is modified to read:

“ ‘Project’ means the program, referred to in the Preamble to the Loan Agreement, in support of which the Loan is made.”;

(b) Section 3.08 is modified to read:

“Each withdrawal of an amount of the Loan from the Loan Account shall be made in the Loan Currency of such amount. If the Loan Currency is not the currency of the deposit account specified in Section 2.02 of the Loan Agreement, the Bank, at the request and acting as an agent of the Borrower, shall purchase with the Loan Currency withdrawn from the

Loan Account the currency of such deposit account as shall be required to deposit the withdrawn amount into such deposit account.”

(c) Section 5.01 is modified to read:

“The Borrower shall be entitled to withdraw the proceeds of the Loan from the Loan Account in accordance with the provisions of the Loan Agreement and of these General Conditions.”;

(d) the last sentence of Section 5.03 is deleted;

(e) Section 9.07 (c) is modified to read:

“(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution of the program referred to in the Preamble to the Loan Agreement, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan.”; and

(f) Section 9.05 is deleted and Sections 9.06, 9.07 (as modified above), 9.08 and 9.09 are renumbered, respectively, Sections 9.05, 9.06, 9.07 and 9.08.

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) “BANSEFI” means *Banco del Ahorro Nacional y Servicios Financieros, S.N.C.*, a developmental bank of the Borrower;

(b) “CONAFOVI” means *Comisión Nacional de Fomento a la Vivienda*, the Borrower’s National Housing Commission established under Article 1 of the relevant Borrower’s Decree published in the Borrower’s Official Gazette on July 26, 2001;

(c) “CONAVI” means *Consejo Nacional de la Vivienda*, the Borrower’s National Housing Council established under Article 5 of the relevant Borrower’s Decree published in the Borrower’s Official Gazette on July 26, 2001;

(d) “Deposit Account” means the account referred to in Section 2.02 (b) of this Agreement;

(e) “Disbursed Amount” means, in respect of each Interest Period, the aggregate principal amount of the Loan withdrawn from the Loan Account in said Interest Period;

(f) “FONAEVI” means *Fondo Nacional de Apoyo Económico a la Vivienda*, a trust fund of the Borrower within FONHAPO in charge of coordinating housing subsidies, established by the FONAEVI Decree;

(g) “FONAEVI Decree” means the Borrower’s Decree establishing FONAEVI, published in the Borrower’s Official Gazette on June 2, 2003;

(h) “FONHAPO” means *Fideicomiso Fondo de Habitaciones Populares*, a housing trust fund created by the Borrower on April 1, 1981;

(i) “Habitat” means an urban poverty program of the Borrower, regulated under the operating rules issued by the Borrower, through SEDESOL, on March 23, 2004;

(j) “INFONAVIT” means *Instituto del Fondo Nacional de la Vivienda para los Trabajadores*, an institute for housing finance with separate legal personality, regulated by the law published in the Borrower’s Official Gazette on April 24, 1972 (as amended through May 25, 2001);

(k) “Liconsa” means a milk distribution program of the Borrower, regulated under operational rules issued by SEDESOL and published in the Borrower’s Official Gazette on March 15, 2002;

(l) “Maturity Fixing Date” means, for each Disbursed Amount, the date on which the amortization schedule for said Disbursed Amount is established, such date being the first day of the Interest Period next following the Interest Period in which said Disbursed Amount is withdrawn;

(m) “*Oportunidades*” means a human development program of the Borrower, regulated under operational rules issued by SEDESOL and published in the Borrower’s Official Gazette on May 8, 2003;

(n) “Peso” means the Borrower’s lawful currency;

(o) “SEDESOL” means *Secretaría de Desarrollo Social*, the Borrower’s Ministry of Social Development;

(p) “SHCP” means *Secretaría de Hacienda y Crédito Público*, the Borrower’s Ministry of Finance and Public Credit;

(q) "SHF" means *Sociedad Hipotecaria Federal, S.N.C.*, the Borrower's development bank in charge of promoting the development of mortgage markets, regulated under SHF's organic law published in the Borrower's Official Gazette on October 11, 2001 and, for purposes of this Loan, the Borrower's financial agent;

(r) "SHF Contract" means the contract referred to in Section 3.03 (a) of this Agreement; and

(s) "UDI" means *unidad de inversión*, a unit created by the Borrower's Central Bank for determining the inflation adjusted value of the Peso.

## 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 equal to one hundred million Dollars (\$100,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. (a) Subject to the provisions of paragraphs (b), (c) and (d) of this Section, the Borrower shall be entitled to withdraw the amount of \$99,500,000 from the Loan Account in support of the Program.

(b) The Borrower shall open, prior to furnishing to the Bank the first request for withdrawal from the Loan Account, and thereafter maintain in its central bank, a deposit account in Dollars on terms and conditions satisfactory to the Bank. All withdrawals from the Loan Account shall be deposited by the Bank into the Deposit Account.

(c) The Borrower undertakes that the proceeds of the Loan shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Bank shall have determined at any time that any proceeds of the Loan shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Bank: (i) deposit into the Deposit Account an amount equal to the amount of said payment; or (ii) if the Bank shall so request, refund such amount to the Bank. Amounts refunded to the Bank upon such request shall be credited to the Loan Account for cancellation.

Section 2.03. The Closing Date shall be December 31, 2004, 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 fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (i) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one per cent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on March 15 and September 15 in each year.

Section 2.08. (a) Subject to the provisions of paragraph (b) of this Section, the Borrower shall repay each Disbursed Amount in semiannual installments payable on each March 15 and September 15, the first such installment to be payable on the eleventh (11th) Interest Payment Date following the Maturity Fixing Date for said Disbursed Amount and the last such installment to be payable on the thirtieth (30th) Interest Payment Date following the Maturity Fixing Date for said Disbursed Amount. Each installment except for the last one shall be equal to one-twentieth (1/20) of said Disbursed Amount. The last installment shall be equal to the remaining outstanding amount of said Disbursed Amount.

(b) Notwithstanding the provisions of paragraph (a) of this Section, if any one or more installments of principal of any Disbursed Amount would, pursuant to the provisions of such paragraph (a), be payable after September 15, 2019, the Borrower shall also pay on such date the aggregate amount of all such installments.

(c) The Bank shall notify the Borrower of the amortization schedule for each Disbursed Amount promptly after the Maturity Fixing Date for said Disbursed Amount.

(d) Notwithstanding the provisions of paragraphs (a) through (c) of this Section, in the event of a Currency Conversion of all or any portion of a Disbursed Amount to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion

Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

Section 2.09. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in Section 2.01(7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

Section 2.10. The *Director General* of the SHF, and any person whom he or she shall designate in writing, are designated as representatives of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

### ARTICLE III

#### Particular Covenants

Section 3.01. (a) The Borrower and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program.

(b) Prior to each such exchange of views, the Borrower, through SHF, shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Bank on any proposed action to be taken after the disbursement of the Loan which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program including any action specified in Schedule 3 to this Agreement.

Section 3.02. Upon the Bank's request, the Borrower, through SHF, shall:

(a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied by independent auditors acceptable to the Bank;

(b) furnish to the Bank as soon as available, but in any case not later than four months after the date of the Bank's request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(c) furnish to the Bank such other information concerning the Deposit Account and the audit thereof as the Bank shall have reasonably requested.

Section 3.03. (a) The Borrower, through SHCP, shall enter into a contract (*Contrato de Mandato*) with SHF, satisfactory to the Bank, whereby:

(i) SHF agrees to act as financial agent of the Borrower with regard to the Loan, meaning that, *inter alia*, SHF agrees to represent the Borrower vis-à-vis the Bank for purposes of submitting Loan withdrawal applications to the Bank in form and substance sufficient to justify disbursement by the Bank to the Borrower of Loan proceeds, agrees to maintain and operate the Deposit Account in compliance with the terms of this Agreement and agrees to ensure that the obligations set forth in Section 3.02 of this Agreement are complied with; and

(ii) the Borrower agrees that, through SHCP, the Borrower shall cooperate fully with SHF to ensure that SHF is able to comply with all of SHF's obligations referred to in paragraph (i) of this Section.

(b) The Borrower shall exercise its rights and carry out its obligations under the SHF Contract in such a manner as to protect the interests of the Bank and to accomplish the purposes of the Loan. Except as the Bank may otherwise agree, the Borrower shall not amend or fail to enforce any provision of the SHF Contract. In case of any conflict between the terms of the SHF Contract and those of this Agreement, the terms of this Agreement shall prevail.



## **ARTICLE IV**

### **Additional Event of Suspension**

Section 4.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional events are specified:

- (a) a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out;
- (b) the Borrower's macroeconomic policy framework has become inconsistent with the objectives of the Program; and
- (c) SHF shall have failed to perform any of its obligations under the SHF Contract or a situation shall have arisen so as to materially and adversely affect, in the opinion of the Bank, the ability of SHF to carry out its obligations under the SHF Contract.

## **ARTICLE V**

### **Effective Date; Termination**

Section 5.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, that the SHF Contract has been entered into by the Borrower and SHF.

Section 5.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely, that the Borrower (in its legal opinion) and SHF (in a separate legal opinion satisfactory to the Bank, issued by SHF counsel acceptable to the Bank), indicate that the SHF Contract has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and SHF and is legally binding upon the Borrower and SHF in accordance with the SHF Contract's terms.

Section 5.03. The date December 30, 2004 is hereby specified for the purposes of Section 12.04 of the General Conditions.

## ARTICLE VI

### Representative of the Borrower; Addresses

Section 6.01. Except as provided in Section 2.10 of this Agreement, the *Titular de la Unidad de Crédito Público* of SHCP is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

*Secretaría de Hacienda y Crédito Público*  
*Unidad de Crédito Público*  
Palacio Nacional (piso 3), oficina 3010  
Colonia Centro  
06000 México, D.F.  
México

Telex:

1777313-SHOCME

Facsimile:

011-52-559-158-1156

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) or  
64145 (MCI)

Facsimile:

(202) 477-6391

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.

UNITED MEXICAN STATES

By /s/ Francisco Gil Díaz

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ James Wolfensohn

Authorized Representative

## SCHEDULE 1

### Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Loan shall not be used to finance any of the following expenditures:

1. expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;
2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Bank or the Association shall have financed or agreed to finance under another loan or a credit;
3. expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semiprecious stones, unworked or worked

718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	-	Gold, non-monetary (excluding gold ores and concentrates)

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party);

6. expenditures: (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories; or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

7. expenditures under a contract in respect of which the Bank determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation.

## SCHEDULE 2

### Actions Referred to in Recital (B) of the Preamble to this Agreement

1. The Borrower has issued a national housing development policy for years 2001-2006, and has made publicly available an annual report stating the results of the implementation of said policy during the period between September 2002 and August 2003.
2. The Borrower has harmonized and defined the roles of the following federal housing agencies and trust funds: CONAFOVI, CONAVI, FONAEVI, FONHAPO and SHF.
3. The Borrower, through CONAFOVI, has carried out an environmental assessment of the Borrower's housing sector on September 19, 2003.
4. The Borrower, through CONAFOVI, has established a working group to consolidate housing subsidy programs, which group includes representatives of the Borrower's main agencies involved in housing subsidies, CONAFOVI being responsible pursuant to its regulations for the design, coordination and evaluation of the Borrower's federal housing subsidy programs.
5. With the goal of consolidating the Borrower's policy on housing subsidies, the Borrower has issued the FONAEVI Decree.
6. The Borrower, through FONHAPO, has established a database of beneficiaries of the Borrower's "*Tu Casa/Viva*" housing program.
7. The Borrower's legislative branch has issued a Congressional Decree containing a set of reforms on various issues related to mortgages and trusts, published in the Borrower's Official Gazette on June 13, 2003.
8. The Borrower has issued a transparency law on housing guaranteed credit and regulations to said law, published in the Borrower's Official Gazette on December 30, 2002 and June 30, 2003, respectively; said law and regulations oblige housing lenders to publicly disclose all costs, commissions and interest rates related to housing loans, which SHF is required to publish monthly in the Borrower's Official Gazette.
9. SHF has issued rules for the licensing of property appraisers, published in the Borrower's Official Gazette on June 30, 2003.
10. SHF has designed and installed a database for credit risk assessment and private financial institutions have begun to contribute information on loans to be included in said database.

11. SHF has modified its general conditions of financing to include credits and guarantees in both Pesos and UDIs.
12. BANSEFI has developed savings programs for low- and moderate-income households applicable to lending by INFONAVIT and to FONHAPO's *Tu Casa* program.
13. The Borrower's States of *Colima*, and *Sonora* have initiated a program to modernize their respective property registries.
14. The Borrower, through SEDESOL, has developed a poverty map to target social programs, including the *Oportunidades*, *Hábitat* and *Liconsa* programs.
15. The Borrower, through SEDESOL, has integrated its physical and social interventions in urban communities under a single umbrella slum-upgrading program (*Hábitat*).
16. The Borrower, through SEDESOL, has expanded the *Oportunidades* program to include coverage of urban areas.
17. The Borrower, through SEDESOL, has carried out an environmental assessment of the Borrower's urban development sector on January 28, 2004.
18. The Borrower, through SEDESOL, has carried out an assessment of the regulatory framework for land development in the States of *Baja California*, *Baja California Sur*, *Chihuahua*, *Coahuila*, *Durango*, *Nuevo León*, *Sinaloa*, *Sonora* and *Tamaulipas*.
19. The Borrower, through SEDESOL, has carried out sixty-five city-level inventories of developable urban land and an analysis of instruments to facilitate residential land development.
20. The Borrower, through SEDESOL, has carried out thirty community-level risk analyses and fifteen sensitization and mitigation projects under the *Hábitat* program.
21. The Borrower, through SEDESOL, has developed ten proposals to organize land use in order to reduce the risk of natural disasters.