

CONFORMED COPY

LOAN NUMBER 2947 ME

(Housing Finance Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

BANCO NACIONAL DE OBRAS Y SERVICIOS PUBLICOS, S.N.C.

Dated September 28, 1988

LOAN AGREEMENT

AGREEMENT, dated September 28, 1988 between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and BANCO NACIONAL DE OBRAS Y SERVICIOS PUBLICOS, S.N.C. (the Borrower).

WHEREAS (A) the Bank has received a letter dated May 10, 1988 from the UNITED MEXICAN STATES (the Guarantor) describing a program of actions, objectives and policies designed to improve the efficient provision of shelter in the Guarantor's housing sector (hereinafter called the Program), declaring the Guarantor's commitment to the execution of the Program, and the Guarantor and Borrower having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested the Bank to assist in the financing of the Project as part of such Program;

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

the Loan and to undertake other obligations as are set forth in the Guarantee Agreement;

(C) Parts A and B.2 of the Project will be carried out by BANCO de MEXICO (Banxico), as trustee for Fondo de Operaci#n y Financiamiento Bancario a la Vivienda, and the Borrower, will make available to Banxico the proceeds of the Loan required to carry out Parts A and B.2 of the Project as provided in this Agreement and in a subsidiary loan agreement to be entered into between the Borrower and Banxico; and

WHEREAS the Bank has agreed, in support of such Program and on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower to finance the Project 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 (the General Conditions), with the modifications set forth below, constitute an integral part of this Agreement:

- (a) the last sentence of Section 3.02 is deleted; and
- (b) Section 9.07 (c) shall be modified to read:

"(c) Not later than six months after the Closing Date or such later date as may be agreed upon for this purpose between the Guarantor and the Bank, the Guarantor, the Borrower and Banxico 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 carrying out of the Project, the performance by the Guarantor, the Borrower, Banxico and the Bank of their respective obligations under the Guarantee, Loan and FOVI Project Agreements, and the accomplishment of the purposes of the Loan.

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

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

(b) "Project Account" means the account referred to in Section 2.01 (c) of the FOVI Project Agreement;

(c) "Banxico" means Banco de MExico, acting as trustee for FOVI (as hereinafter defined);

(d) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and Banxico pursuant to Section 3.01 of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement;

(e) "Subsidiary Loan" means the loan made by the Borrower to Banxico pursuant to the Subsidiary Loan Agreement;

(f) "FOVI, means Fondo de Operaci#n y Financiamiento Bancario a la Vivienda, a housing trust fund established by the Guarantor and operating in accordance with the agreement between the Guarantor and Banxico as trustee, dated April 10, 1963, as

amended on May 21, 1985 (hereinafter called the FOVI Trust Agreement), and such term includes the technical and administrative organization, resources, staff and facilities used or to be used by the trustee to operate FOVI;

(g) "FOVI Project Agreement" means the agreement between the Bank and Banxico of even date herewith, as such agreement may be amended from time to time, and such term includes all schedules and agreements supplemental to the FOVI Project Agreement;

(h) "Financial Intermediary" means a credit institution determined to be eligible by Banxico for the purpose of making FOVI Subloans (as hereinafter defined);

(i) "Construction Subloan" means a loan made, or proposed to be made, by a Financial Intermediary to an Eligible Developer (as hereinafter defined) for the construction of an Eligible House or Eligible Houses (as hereinafter defined), to be financed from the proceeds of the Loan;

(j) "Purchase Subloan" means a loan made, or proposed to be made, by a Financial Intermediary to an Eligible Purchaser (as hereinafter defined) for the acquisition of an Eligible House (as hereinafter defined), to be financed from the proceeds of the Loan;

(k) "FOVI Subloan" means any Construction Subloan or Purchase Subloan; "FOVI Subloans" means Construction Subloans or Purchaser Subloans, and any combination thereof;

(l) "Eligible Developer" means any person or entity, or groups of persons or entities, with juridical capacity to contract under the laws of the Guarantor, qualified by a Financial Intermediary, who or which constructs, or proposes to construct, an Eligible House or Eligible Houses;

(m) "Eligible Purchaser" means a head of household who has a household income level of not more than 4.0 times the minimum wage for the Distrito Federal as defined by the Comisi#n Nacional de Salarios M-#nimos, the National Commission on Minimum Wages, of the Guarantor, or such other household income level as shall be acceptable to the Bank, and who purchases or proposes to purchase an Eligible House;

(n) "Eligible Beneficiary" means any Eligible Developer or Eligible Purchaser; Eligible Beneficiaries means Eligible Developers or Eligible Purchasers and any combination thereof;

(o) "Mandatory Housing Lending Regulations" means the rule and procedures for mandatory housing lending operations, including FOVI, established by Banxico's Circular No. 1935/85, as amended by telex circulars, through Telex Circular No. 28/88 dated March 15, 1988 (hereinafter "Telex Circular No. 28/88");

(p) "Eligible House" means a Type A house to be purchased by an Eligible Purchaser or a Type A house to be constructed by an Eligible Developer under the Project, as such Type A House is defined in the Mandatory Housing Lending Regulations, and a Test House (as hereinafter defined);

(q) "Test House" means a house which meets the minimum specifications for a Type 1 House as such house is defined in the Mandatory Housing Lending Regulations and which has a selling price of approximately 80% of the average market prices prevailing for such Type 1 House during February 1988, adjusted in real terms utilizing the Inflation Index, Indice de Costos de Edificaci#n de la Vivienda de Inter#s Social (INCEVIS), published monthly by Banxico;

(r) "Reference Rate" means the index of the average cost of funds, Costo Porcentual Promedio de Captaci#n, as defined in the Diario Oficial de la Federaci#n, dated October 16, 1981, published

by the Guarantor or such other reference rate acceptable to the Guarantor and the Bank;

(s) "FOVI Subloan Interest Rate" means at least the Reference Rate;

(t) "Interest Capitalization Limitation" means any prohibition against adjusting the principal amount outstanding of a FOVI Subloan to permit capitalization of interest; and

(u) "peso" means the currency unit of the Guarantor.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount in various currencies equivalent to three hundred million dollars (\$300,000,000).

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, as such schedule may be amended from time to time by agreement between the Bank and the Borrower, for expenditures made or, if the Bank shall so agree, to be made, in respect of the reasonable cost of goods and works required for Parts A and B.2 of 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 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 4 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1994 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

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

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

(c) For purposes of this Section:

(i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.

(iii) "Semester" means the first six months or the second six months of a calendar year.

Section 2.06. Interest and other charges shall be payable

semiannually on February 15 and August 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

Transfer of Loan Proceeds; Other Covenants

Section 3.01. (a) The Borrower shall enter into a subsidiary loan agreement, satisfactory to the Bank, with Banxico as trustee for FOVI, for the on-lending of the proceeds of the Loan required to carry out Parts A and B.2 of the Project, including inter alia, the following terms and conditions:

- (i) the interest rate to be charged on funds lent to Banxico shall be equal to the applicable FOVI Subloan Interest Rate, minus a financial intermediation fee of up to 4.5% percentage points per annum;
- (ii) such funds lent to Banxico shall be denominated in pesos and repayable in pesos;
- (iii) such funds shall in turn be on-lent by Banxico, as trustee for FOVI, to Financial Intermediaries for purposes of making Fovi Subloans, such Financial Intermediaries to pay an interest rate equal to the applicable FOVI Subloan Interest Rate minus a financial intermediation fee of up to 3.0% percentage points per annum; and
- (iv) Banxico shall repay to the Borrower all amounts received by Banxico from Financial Intermediaries as repayments of principal and interest of FOVI Subloans financed from the proceeds of the Loan.

(b) Except as the Bank shall otherwise agree, the Borrower shall not change or fail to enforce any provision of such contractual arrangements or of the Subsidiary Loan Agreement.

Section 3.02. The Bank and the Borrower agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating respectively to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) in respect of Part A and B.2 of the Project shall be carried out by Banxico pursuant to Section 2.04 of the FOVI Project Agreement, and by the Guarantor in respect of Parts B.1 and B.3 of the Project pursuant to Section 3.02 of the Guarantee Agreement.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the goods and works required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of paragraph 2 (d) of the Schedule to the FOVI Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain separate records for the Special Account, adequate to reflect, in accordance with sound accounting practices, the resources and expenditures in connection with the execution of the Project.

- (b) The Borrower shall:
 - (i) have such separate records and the Special Account, for each fiscal year audited in accordance with generally accepted auditing standards and practices 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 the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested;
- (iii) furnish to the Bank each month certified statements of the Special Account; and
- (iv) furnish to the Bank such other information concerning the Special Account, and the audit thereof, and said records as the Bank shall from time to time reasonably request.

ARTICLE V

Additional Events of Suspension

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

(a) that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out;

(b) that the Guarantor shall have adopted cost-recovery policies contrary to the Program;

(c) that Banxico shall have failed to perform any of its obligations under the FOVI Project Agreement;

(d) that, as a result of events which have occurred after the date of the Loan Agreement, a situation shall have arisen which shall make it improbable that Banxico will be able to perform its obligations under the FOVI Project Agreement;

(e) that a change shall have been made in the provisions of the Mandatory Housing Lending regulations related to the making of FOVI Subloans, or the FOVI Trust Agreement, which, in the opinion of the Bank could materially and adversely affect the carrying out of the Project; and

(f) that the Guarantor, Banxico, or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of FOVI or for the suspension of its operations.

ARTICLE VI

Effective Date; Termination

Section 6.01. 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 Borrower and Banxico shall have entered into the Subsidiary Loan Agreement.

Section 6.02. The following are specified as additional matters, 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:

(a) that the FOVI Project Agreement has been executed and duly authorized or ratified by Banxico, and is legally binding upon Banxico in accordance with its terms; and

(b) that the Subsidiary Loan Agreement has been executed and duly authorized or ratified and is legally binding upon the parties thereto in accordance with its terms.

Section 6.03. The date of December 28, 1988 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 Director General of the Borrower 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 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 the Borrower:

Banco Nacional de Obras y Servicios
Públicos, S.N.C.
Insurgentes Norte 423
06900 Mexico D.F.
Mexico

Cable address:

BANTECARIO
Mexico City, D.F.
Mexico

Telex:

BNDSME
01772619
Mexico City

Fax: 583-5139
583-5282

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, 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 /s/ Shahid Husain

Regional Vice President
Latin America and the Caribbean

BANCO NACIONAL DE OBRAS Y SERVICIOS
PUBLICOS, S.N.C.

By /s/ Gustavo Petricioli

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
FOVI Subloans	300,000,000	up to 100% of amounts disbursed by Banxico under each FOVI Sub- loan
TOTAL	300,000,000	

2. Notwithstanding the provisions of paragraph 1 above no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

SCHEDULE 2

Description of the Project

The objectives of the Project are to:

- (a) increase the availability of affordable housing;
- (b) increase the role of the private sector in housing, improve the coordination of public housing programs and review measures to promote investments in rental housing;
- (c) achieve full cost recovery; and
- (d) increase savings from households and institutions.

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

Part A: Housing Finance and Construction

1. Financing the construction of Eligible Houses.
2. Financing the acquisition of Eligible Houses.

Part B: Studies and Test-Marketing

1. Carrying out a study to identify methods to mobilize savings by households and institutions, including identification of any disincentives to savings.
2. Carrying out a program to test-market and provide financing for about 2,500 Test Houses.
3. Carrying out a study of: (a) the current status of the rental housing subsector; and (b) investors' capacity to increase the total supply of housing.

* * * * *

The Project is expected to be completed by December 31, 1993.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each February 15 and August 15 beginning February 15, 1994 through August 15, 2003	15,000,000

* 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	0.20
More than three years but not more than six years before maturity	0.40
More than six years but not more than eleven years before maturity	0.73
More than eleven years but not more than thirteen years before maturity	0.87
More than thirteen years before maturity	1.00

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "Eligible Category" means the Category 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 Category in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to twenty million dollars (\$20,000,000) to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 of this Schedule.

2. Except as the Bank shall otherwise agree, payments out of the Special Account shall be made exclusively for eligible expendi-

tures 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 may be made as follows:

(a) the Borrower shall make withdrawals from the Special Account for payments of Eligible Expenditures on the basis of the evidence that the Bank shall have reasonably determined, and shall debit the Special Account with the amount in dollars so withdrawn or with the dollar equivalent of the currency other than dollars in which the payment was made, determined on the basis of the rate of exchange between the dollar and such currency in effect: (i) on the date each payment shall have been made, if the payment has taken place within 90 days before the date of the withdrawal in question has been requested; or (ii) on the date each withdrawal shall have been made.

(b) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(c) The Borrower shall furnish to the Bank requests for replenishment of the Special Account at such intervals as the Bank shall specify. On the basis of such requests, the Bank shall withdraw from the Loan Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments 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 Category, and in the respective equivalent amounts, as shall have been justified by the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (c) of this Schedule, the Borrower shall furnish to the Bank, prior to or at the time of such request, such documents and other evidence as the Bank shall reasonably request, showing that such payment was made for Eligible Expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Bank when either of the following situations first arises:

- (i) 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
- (ii) the total unwithdrawn amount of the Loan allocated to the Eligible Category, minus the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall be equal to the equivalent of twice the amount of the Authorized Allocation.

(b) Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the Eligible Category 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 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 any expenditure or in any 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, 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. No further deposit by the Bank into the Special Account shall be made until the Borrower has made such deposit or refund.

(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 for crediting to the Loan Account and immediate cancellation.

