

**CONFORMED COPY**

**LOAN NUMBER 7491-ME**

# **Loan Agreement**

**(Third Affordable Housing and Urban Poverty  
Reduction Development Policy Loan)**

**between**

**UNITED MEXICAN STATES**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated November 28, 2007**

## **LOAN AGREEMENT**

Agreement dated November 28, 2007, entered into between UNITED MEXICAN STATES (the Borrower), represented by its signatory on page 6 of this Agreement (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Bank has decided to provide this financing on the basis, inter alia, of: (a) the actions which the Borrower has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; and (b) the Borrower’s maintenance of an appropriate macro-economic policy framework. The Borrower and the Bank therefore hereby agree as follows:

### **ARTICLE I — GENERAL CONDITIONS; DEFINITIONS**

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

### **ARTICLE II — LOAN**

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of two hundred million five hundred ten thousand Dollars (\$200,510,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“Loan”).
- 2.02. The Borrower, through SHF, may withdraw the proceeds of the Loan in support of the Program in accordance with Section II of Schedule 1 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The interest payable by the Borrower, through SHF, for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Fixed Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the forgoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty (30) days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02(d) of the General Conditions.

- 2.05. The Payment Dates are March 15 and September 15 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 2 to this Agreement.
- 2.07. (a) The Borrower may, or may cause SHF to, 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 the 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 the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- (c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.
- 2.08. Without limitation upon the provisions of Section 5.10 of the General Conditions, the Borrower shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.
- 2.09 The *Director General Adjunto de Finanzas de SHF*, and any person or persons 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 II of the General Conditions

### **ARTICLE III — PROGRAM**

- 3.01 The Borrower declares its commitment to the Program and its implementation. To this end:
- (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; and

- (c) without limitation upon the provisions of paragraphs (a) and (b) 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 Section I of Schedule 1 to this Agreement.
- 3.02 (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 and agrees to maintain and operate the Deposit Account in compliance with the terms of this Agreement; and
  - (ii) the Borrower, through SHCP, shall cooperate fully with SHF to ensure that SHF is able to comply with all of SHF's obligations referred to in paragraph (a) of this Section.
- (b) The Borrower shall exercise its rights and carry out its obligations under the *Contrato de Mandato* 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 *Contrato de Mandato*. In case of any conflict between the terms of the *Contrato de Mandato* and those of this Agreement, the terms of this Agreement shall prevail.

#### **ARTICLE IV — REMEDIES OF THE BANK**

- 4.01. The Additional Events of Suspension consist of the following:
- (a) A situation has arisen which, in the opinion of the Bank, shall make it improbable that the Program, or a significant part thereof, will be carried out.
  - (b) The Borrower's macroeconomic policy framework has, in the opinion of the Bank, become inconsistent with the objectives of the Program.
  - (c) An action has been taken or a policy has been adopted to reverse any action or policy under the Program (including any action listed in Section I of Schedule 1 to this Agreement) in a manner that would, in the opinion of the Bank, adversely affect the achievement of the objectives of the Program.



## ARTICLE V — EFFECTIVENESS, TERMINATION

- 5.01. The Additional Conditions of Effectiveness consist of the following:
- (a) the *Contrato de Mandato* has been executed by the parties thereto; and
  - (b) 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 *Contrato de Mandato* 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 *Contrato de Mandato*'s terms.
- 5.02 Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than the eighteen (18) months after the Bank's approval of the Loan which expire on May 27, 2009.

## ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Borrower's Representative is the *Titular de la Unidad de Crédito Público* of SHCP.

6.02. The Borrower's Address is:

Secretaría de Hacienda y Crédito Público  
Unidad de Crédito Público  
Palacio Nacional  
Patio Central  
3er piso, oficina 3010  
Colonia Centro  
06000 México, D.F.

Facsímile: 011-52-55-3688-1156

6.03. The Bank's Address is:

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

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

AGREED at Mexico City, Mexico, as of the day and year first above written.

**UNITED MEXICAN STATES**

**By /s/ Gerardo Rodríguez Regordosa  
Authorized Representative**

**INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT**

**By /s/ Axel van Trotsenburg  
Authorized Representative**

## SCHEDULE 1

### Program Actions; Availability of Loan Proceeds

#### Section I. Actions under the Program

1. The Borrower through CONAVI has (a) reformed the existing federal housing subsidy system (including modification of its operational rules) and (b) implemented a new federal subsidy program (including design of operational rules and allocation of corresponding budget for 2007) to, *inter-alia*: improve equity across programs; prevent combining subsidies from multiple federal programs; establish consistent rules for beneficiary selection (including by income group); and link receipt of subsidy to household savings.

2. The Borrower has established new partnerships and incorporated new products into SHF's operation to finance home improvement, addition, and purchase of existing housing for low- and moderate-income groups.

3. The Borrower, through CONAVI, has signed, since January 2006, property registry modernization agreements with at least eleven (11) additional states of the Mexican federation.

4. The Borrower has: (a) through SEDESOL, completed a quantitative cost/benefit analysis of land development; and (b) through SHF and SEDESOL, implemented a pilot program that facilitates land development for low- and moderate-income housing.

#### Section II. Availability of Loan Proceeds

A. **General.** The Borrower, through SHF, may withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions as the Bank may specify by notice to the Borrower.

B. **Allocation of Loan Amounts.** The Loan shall be withdrawn in a single tranche. The allocation of the amounts of the Loan to this end is set out in the table below:

<b>Allocations</b>	<b>Amount of the Loan Allocated (expressed in Dollars)</b>
Single Tranche	200,008,725
Front end Fee	501,275
<b>TOTAL AMOUNT</b>	<b>200,510,000</b>

C. **Payment of Front-end Fee.** No withdrawal shall be made from the Loan Account until the Bank has received payment in full of the Front-end Fee.



**D. Deposits of Loan Amounts.** Except as the Bank may otherwise agree:

1. all withdrawals from the Loan Account shall be deposited by the Bank into an account designated by the Borrower, through SHF, and acceptable to the Bank; and
2. the Borrower shall ensure that upon each deposit of an amount of the Loan into this account, an equivalent amount is accounted for in the Borrower's budget management system, in a manner acceptable to the Bank.

**E. Excluded Expenditures.** The Borrower undertakes that the proceeds of the Loan shall not be used to finance Excluded Expenditures. If the Bank determines at any time that an amount of the Loan was used to make a payment for an Excluded Expenditure, the Borrower shall, promptly upon notice from the Bank, refund an amount equal to the amount of such payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled.

**F. Closing Date.** The Closing Date is June 30, 2008.

## SCHEDULE 2

### Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<b>Principal Payment Dates</b>	<b>Installment Share (Expressed as a Percentage)</b>
On each March 15 and September 15  Beginning: March 15, 2013 through September 15, 2022	5%

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:
  - (a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
  - (b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.
3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

- (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.
  
- 4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is 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 the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

## APPENDIX

### Section I. Definitions

1. “CONAVI” means *Comisión Nacional de 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 as amended on June 28, 2006.
2. “*Contrato de Mandato*” means the contract referred to in Section 3.02(a) of this Agreement.
3. “Excluded Expenditure” means any expenditure:
  - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association has financed or agreed to finance, or which the Bank or the Association has financed or agreed to finance under another loan, credit, or grant;
  - (b) for goods included in the following groups or sub-groups 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:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, 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)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
  - (d) for environmentally hazardous 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[, and any other goods designated as environmentally hazardous by agreement between the Borrower and the Bank].
  - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
  - (f) with respect to which the Bank determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Borrower or other recipient of the Loan proceeds, without the Borrower (or other such recipient) having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur.
4. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through October 17, 2007) with the modifications set forth in Section II of this Appendix.
  5. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty (in the housing and urban sectors) and set forth or referred to in the letter dated October 3, 2007 from the Borrower to the Bank declaring the Borrower’s commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during its execution.
  6. “SEDESOL” means *Secretaría de Desarrollo Social*, the Borrower’s Social Development Ministry.
  7. “SHCP” means *Secretaría de Hacienda y Crédito Público*, the Borrower’s Ministry of Finance and Public Credit.
  8. “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.
  9. “Single Tranche” means the amount of the Loan allocated to the category entitled “Single Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

## **Section II. Modifications to the General Conditions**

The modifications to the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through October 17, 2007) are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.

2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Sections 5.01 (*Project Execution Generally*), and 5.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article V are renumbered accordingly.
4. Paragraph (a) of Section 5.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 5.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 5.06. *Plans; Documents; Records*

... (c) The Borrower shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Loan until two years after the Closing Date. The Borrower shall enable the Bank’s representatives to examine such records.”

6. Section 5.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

Section 5.07. *Program Monitoring and Evaluation*

... (c) The Borrower shall prepare, or cause to be prepared, and furnish to the Bank not later than six months after the Closing Date, a report of such scope and in such detail as the Bank shall reasonably request, on the execution of the Program, the performance by the Loan Parties and the Bank of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Loan.

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Loan is put in support of the Program, other than to finance expenditures excluded pursuant to the Loan Agreement.”

- (b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

- (c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Loan Agreement in support of which the Loan is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.