

CONFORMED COPY

LOAN NUMBER 2853 KO

Loan Agreement

(Housing Finance Sector Project)

between

REPUBLIC OF KOREA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated August 6, 1987

LOAN NUMBER 2853 KO

LOAN AGREEMENT

AGREEMENT, dated August 6, 1987, between REPUBLIC OF KOREA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter, dated April 12, 1987, from the Borrower, including a policy statement and program of actions and studies (hereinafter called the Policy Statement) describing a program of actions designed to, improve the Borrower's housing finance policies, and declaring the Borrower's commitment to the execution of the Policy Statement;

(B) the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon 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, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

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) "MOC" means the Borrower's Ministry of Construction, or any successor thereto;

(b) "Sub-loan" means a loan made or proposed to be made by the Borrower, partly out of the proceeds of the Loan;

(c) "Sub-project" means a sub-project to be carried out under the Project, and to be financed, in part, by a Sub-loan;

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

(e) "NHF" means the National Housing Fund of the Borrower, a fund established pursuant to the Housing Construction Acceleration Law of 1972, Law No. 2409, as amended on April 7, 1981, Law No. 3420;

(f) "Act" means the Housing Construction Acceleration Law of 1972, Law No. 2409, as amended to date; and

(g) "Guidelines" means the Guidelines for Procurement under IBRD Loans and IDA Credits published by the Bank in May 1985.

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 one hundred fifty million dollars (\$150,000,000).

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 services required for 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 in the Korea Exchange Bank 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 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1991, 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 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

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 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 semi-annually on March 15 and September 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

Execution of the Project

Section 3.01. The Borrower declares its commitment to the objective of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project, through MOC, with due diligence and efficiency and in conformity with appropriate administrative, financial and engineering practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. Except as the Bank shall otherwise agree, procurement of civil works required for the Project and to be financed out of the proceeds of the Loan, and the employment of consultants to assist in the carrying out of the Project, shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. The Borrower shall approve the Sub-projects, and make Sub-loans through NHF, in accordance with criteria agreed with the Bank.

Section 3.04. The Borrower shall review with the Bank annually the progress achieved in the implementation of the Policy Statement. The first such review shall take place not later than June 30, 1988.

Section 3.05. The Borrower shall furnish to the Bank, for the Bank's review and comments, any proposed changes to the Policy Statement.

Section 3.06. The Borrower shall furnish to the Bank, not later than December 31, 1988, for the Bank's review and comments, the results of each of the studies under Part B.1 of the Project.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures of NHF, including without limitation to the foregoing,

separate accounts reflecting all expenditures for the Project.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account 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 nine 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; and
- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditures, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditures furnished during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Bank

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

(a) an event has occurred which shall make it improbable that the Policy Statement or a significant part thereof will be carried out; and

(b) any of the Sections of the Act dealing with NHF shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the existence or operation of the NHF.

ARTICLE VI

Termination

Section 6.01. The date ninety (90) days after the date of this Agreement 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 Minister of Finance 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 Borrower:

Ministry of Finance
Republic of Korea
Kwachon, Korea

Cable address:

Telex:

MOF
Kwachon, Korea

K 23243

For the Bank:

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

Cable address:

Telex:

INTBAFRAD
Washington, D.C.

440098 (ITT)
248423 (RCA) or
64145 (WUI)

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.

REPUBLIC OF KOREA

By /s/ Sun Joun Yung

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ A. Karaosmanoglu

Regional Vice President
Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The amount of the Loan may be withdrawn from the Loan Account for amounts paid (or if the Bank shall so agree, to be paid) by the Borrower for Sub-loans for civil work contracts, to meet 40% of NHF expenditures for each such Sub-loan, in accordance with the

provisions of this Agreement.

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made: (i) for expenditures prior to the date of this Agreement; and (ii) for expenditures for civil works contracts costing at award the equivalent of less than \$500,000.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in expanding its housing finance system and increasing its effectiveness in improving housing conditions in Korea, especially for the low-income population.

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

Part A

Provision of Sub-loans for construction finance, to be converted into long-term mortgage loans, for approximately: (i) 135,000 units to be developed by public sector agencies; and (ii) 75,000 units to be developed by private developers.

Part B

1. Provision of consultants' services for assisting in carrying out studies on:

- (a) resource rehabilitation and lending for housing; and
- (b) cost and efficiency of public housing programs.

2. Provision of local and overseas training.

* * * *

The Project is expected to be completed by June 30, 1990.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each March 15 and September 15	
beginning March 15, 1991	6,250,000
through September 15, 2002	

* 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.

Premium of Prepayment

The following premiums are specified for the purposes of Section 3.04 (b) of the General Conditions:

Time of Prepayment	Premium
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	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 11 years before maturity	0.73
More than 11 years but not more than 13 years before maturity	0.87
More than 13 years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Works

Part A. Procurement Procedures

1. Contracts for civil works under Part A (i) of the Project may be procured in accordance with local competitive bidding procedures satisfactory to the Bank.

2. Civil works under Part A (ii) of the Project may be carried out by private builders selected in accordance with criteria satisfactory to the Bank.

Part B. Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each civil works contract under Part A.1 above costing the equivalent of \$8 million or more, the procedures set forth in paragraphs 2 and 4 of Appendix I to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to paragraph 2 (d) of Appendix I to the Guidelines shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix I to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Bank has

authorized withdrawals from the Loan Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c) (ii) of this Agreement.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

In order to assist the Borrower in carrying out Part B.1 of the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible expenditures" means expenditures in respect of the reasonable cost of works and services required for the Project and to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule I to this Agreement; and

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

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

(b) 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 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 (b) 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 directly by the Borrower from the Loan Account in accordance with

the provisions of paragraph (a) of Section 2.02 of this Agreement; or

- (ii) the total unwithdrawn amount of the Loan 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 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 of the date of such notice have been or 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 pursuant to paragraph 4 of this Schedule, 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.

