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I S R A E L

Housing Guaranty Paper

Agency for International Development

Office of Housing

June 16, 1975

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I. SUMMARY AND RECOMMENDATIONS

A. Purpose

To assist the Government of Israel (GOI) in financing, through its Public Housing Program, homes of acceptable standards that can be purchased by those families with incomes below the median level of the urban population.

B. The Program

The Housing Investment Guaranty (HIG) loan will be used to provide long term mortgage financing for approximately 2,000 dwelling units for lower income families within classifications established by the GOI as requiring priority assistance in purchasing housing. These groups are: (1) young couples (newly formed families); (2) large families (relocated slum dwellers); (3) new immigrants; (4) minorities; and (5) rural settlements, including new development areas.

C. The Borrower and Administrator

The Borrower and Administrator of the program will be the GOI Ministry of Finance, and the implementing agency will be the Ministry of Housing. The funds will be disbursed by the joint authority of the two ministries through [illegible] Mortgage Banks who will actually place and service the mortgages.

D. The Guaranty Authorization

1. Amount

$25 million.

2. Terms and Interest Rate

The term of the loan will be up to 30 years from the date of the first disbursement.

The interest rate will be negotiated between the Borrower and the U.S. Investor(s) but in any event the rate payable to the U.S. Investor(s) shall not exceed the allowable interest rate prescribed by A.I.D. pursuant to Section 223(f) of the Foreign Assistance Act and shall be consistent with interest rates generally available for similar types of loans.1/

3. Conditions of the Guaranty

The terms and conditions are set forth in the Guaranty Authorization attached and specifically include:

1/ The estimated interest rate for a Housing Guaranty loan is 9% based on today's market.

a. None of the guarantied funds shall be used to finance housing located outside of the territory subject to the administration of the State of Israel prior to June 1967.

b. A repayment guaranty from the GOI to A.I.D.

c. The A.I.D. fee will be 1/2 of 1% per annum of the outstanding guarantied amount of the loan, plus a one-time fee of $100,000.

E. The Embassy Position

The Embassy recommends that a new authorization be issued "for a figure on the order of $25 million". Cable, Tel Aviv 0058, dated January 4, 1975.

F. SER/H Recommendation

On the basis of the Shelter Sector Analysis made in Israel during May 1975, and the conclusions set forth in this paper, it is recommended that a housing guaranty authorization in an amount not to exceed $25 million be issued to the Government of Israel.

II. BACKGROUND

There have been three HIG's for Israel to date. The first for $50 million, was authorized in FY 72, and disbursement completed in FY 73. At the time of the contract signing GOI Minister of Finance Sapir met with A.I.D. Administrator Hannah, and requested an additional $100 million. He was advised that $25 million could be made available from existing authority, but that additional amounts would depend upon subsequent legislation.

In cable Tel Aviv 5991, dated July 30, 1972, the Embassy stated, in summary: "Social and economic pressure from under-privileged concentrates heavily on housing shortage and makes U.S. assistance important to stability here. Embassy hopes further program along lines discussed by GOI with various Washington officials can be approved."

In the FAA's of 1973 and 1974, Congress expressed its interests in continuing HIG's to Israel. In the 1973 FAA, Senator Humphrey, the floor leader, reporting back to the full Senate after the House-Senate Conference, made specific reference to provision for HIG's for Israel. In the 1974 FAA, Senator Javits introduced an amendment increasing world-wide HIG authority $100 million above the amount requested by the Executive Branch, with Israel clearly a major consideration. (This amount was reduced to $50 million in the Senate-House Conference.) Accordingly, a second HIG for $25 million was authorized in November 1973, (from authority available at the time of the Sapir-Hannah discussions) and a third HIG also for $25 million was authorized in June 1974. This brings to $50 million the amount approved since the GOI $100 million request.

In December 1974, the GOI Minister of Finance, in a letter to Ambassador Keating, requested approval of the additional $50 million. The Embassy recommended approval of $25 million, which was the amount projected by A.I.D. for Israel in FY 75.

In May 1975, a team from the A.I.D. Office of Housing (SER/H) updated the shelter sector analysis for Israel, and reviewed the program proposed by the GOI.

The ongoing discussions with the GOI, Congressional intent, available resources and A.I.D.'s projections all support a $25 million HIG in FY 75.

III. POLICY CONSIDERATIONS

The SER/H team reviewed two policy issues with the GOI. The first of these was the target-income group; this was specifically identified as families with incomes below the urban median, consistent with A.I.D.'s updated (1974) shelter policy, while most of the beneficiaries of the FY 74 HIG program did fall within these guidelines, the entire FY 75 program will be within the reach of this income group. This has been agreed to.

The second issue was the level of subsidy in GOI housing programs. The GOI lists housing as its highest priority after defense and considers it to be an obligation of the State to see to it that adequate housing is available for its priority groups. They have demonstrated their willingness and ability to make significant resources available for the housing sector. Nevertheless, SER/H felt that increased construction costs and other economic changes dictated a review of current GOI housing subsidies.

As a result of this review (and other factors, of course) the GOI significantly reduced its land subsidy program, while maintaining some other forms of subsidy. The A.I.D. review of the total level of subsidy for FY 75 indicates that it is within the capacity of the GOI level to absorb, will not inhibit the housing program, and serves as an income re-distribution device in favor of lower-income groups.

A.I.D. has also recommended to the GOI that this review be conducted on an annual basis in the future.

IV. ISRAELI HOUSING SECTOR

A. Housing Need

For Israel, FY 75 through FY 79, the Ministry of Housing projects a net nationwide housing requirement of 275,000 units with the actual requirement depending upon the level of immigration. The table below shows the breakdown of the estimated number of housing units required during FY 75 through FY 79 by population categories.

Israel Ministry of Housing Estimated Annual Housing Need
FY 1975 through FY 1979

	1975	1975-1979
Total Net Demand	55,000	275,000
Total Demand	62,000	310,000
Young Couples	26,000	130,000
New Immigrants	17,000	85,000
Slum Clearance (3+)	6,000	30,000
Other	13,000	65,000
Death and Emmigration (-)	7,000	(-)35,000

HOUSING NEEDS BY REGION

Location	Total	Public	Private
Jerusalem District	36,000	23,000	13,000
Galilee	74,000	66,000	8,000
Coastal Areas	146,000	71,000	75,000
South and Negev	54,000	46,000	8,000
Total	310,000	206,000	104,000
One Year Average	62,000	41,200	20,800

B. Housing Priorities

Within the perimeters of the GOI's housing development plan, five distinct housing market groups of the population are being given priority under specific standardized public housing schemes. These housing market groups are: (1) young couples; (2) new immigrants; (3) families living in housing having a density of three or more persons per room or in substandard housing; (4) minorities; and (5) settlers in development areas, agricultural areas.

1. Young Couples

The need for GOI assistance is demonstrated by the mortgage financing requirements for young couples as determined by the GOI's public sector directives. A $1 million mortgage financing requirement in 1970 soared to $50 million in 1974.

2. New Immigrants

New immigrants represent serious, and at the same time difficult to solve aspect of the Israel housing problem. The absence of Israeli immigration quotas makes planning and the allocation of resources for this category difficult.

In an attempt to meet this problem, the GOI, not only has a continuing program to provide permanent housing for the immigrants, but also has established the unique policy of maintaining an unoccupied reserve of housing units in an attempt to accomodate the uneven fluctuations in demand.

3. Large Families (3+) (slum areas)

Families living in housing having a density of three or more persons per room or in substandard housing (the 3+ program). According to Ministry of Housing estimates, approximately 60,000 families are still occupying substandard housing. Of this figure, approximately 40,000 larger families are living in overcrowded conditions of three or more persons per room.

4. Minorities

The Arabs and the Druzes are Israel's largest minority groups. At the beginning of 1975, minorities in Israel numbered 519,000 which does not include the population of the administered areas.

Specifically, the GOI is providing for the development of several new towns and villages for Arabs and Druzes, and Circassians in the Akko region, Central Galilee, the Negev and in other developing and urban areas of the country.

5. Settlers in Development Areas

In an effort to reduce or reverse the population flow to the large metropolitan areas in the Tel Aviv - Haifa region, the GOI has established a high priority towards strengthening the economic base of development towns located in the Galilee and Negev areas of the country. The Government encourages families to move into these areas by offering special assistance towards acquiring housing in the form of grants and loans.

V. DESCRIPTION AND IMPLEMENTATION OF THE PROGRAM

The Proposed $25 Million Program

1. The GOI proposes that under the new program the Borrower and Administrator will be the Ministry of Finance, that the implementing agency will be the Ministry of Housing and the funds will be disbursed, by the joint authority of the two ministries, through Mortgage Banks to provide long term mortgage financing for public housing projects.

a. The HG funds will be disbursed primarily through the four largest mortgage banks in Israel which together hold 85% of all assets of the Israeli mortgage banking industry.

These mortgage banks are listed below in numerical order based on present assets, however, the percentage of HG funds to be disbursed by each has not been determined by the GOI.

TEFAHOT
General Mortgage Bank
Housing Mortgage Bank
Mortgage Development Bank

b. Examples of the National, Municipal and Public Housing Corporations that will participate in the HG program are:

Halamish, the state-municipal housing corporation of Tel Aviv;

Shikmona, the state-municipal housing corporation of Haifa;

Amidar, the property management firm that specializes in handling the lower income groups and poverty cases.

2. The $25 million authorization will provide mortgage financing for approximately 2,000 housing units. The units are to be developed through new construction and through enlargement and renovation of existing dwellings. The projects are within the Public Housing sector for the lower income strata of home purchasers according to group categories established by the GOI.

Construction financing will be provided by the GOI through both the development budget and other sources external to the budget such as capital investment of the builders, revenues from "savings for housing schemes" and the country's capital market. These resources are estimated to be sufficient for the FY 75 [illegible].

The proposed projects are planned and will be executed in accordance with national and municipal planning policies, the National and local master plans and will follow the GOI approved standards for contracting and construction. Social, commercial and other community facilities are integrated elements of the planning, especially in the new development areas.

3. For the purposes of illustration of the way the HIG funds will be used within the Public Housing Sector, Table , below indicated the tentative distribution proposed by the GOI.

Distribution and Categories for A.I.D. Loan

Eligibility Category	Units Financed	Percentage
Young Couples	1,000	50%
Large Families (3+) (slum clearance)	400	20
New Immigrants	200	10
Minorities	200	10
Rural Settlement (development areas)	200	10
TOTAL	2,000	100%

Annex I indicates by geographic region the housing units to be constructed during FY 1975, 2,000 of which will be financed by the $25,000,000 HIG loan for families in the lower median income category.

VI. TECHNICAL CONSIDERATIONS

Costs and Regional Variations

A. Construction Costs

Construction costs have been steadily increasing since 1972 with the most important reasons being: general inflation, high market demand, increasing labor costs, devaluation of Israeli pound and higher cost of imports. These increases resulted in the change of the maximum dwelling unit price from IL 67,000* ($16,000) in 1972 to IL 147,000 ($24,500) in 1975.

B. Maximum Unit Price Under the HG Program

The GOI, considering the utilization of available cost reducing methods, set the maximum selling price of the dwelling units financed under the proposed HG loan at IL 140,000 ($23,334).

C. Estimated Average Unit Prices

In order to stay within the target price, GOI reduced the standards for public housing and accepted smaller average floor areas for various unit types.

Considering the reduced standards and applied savings, it is estimated that the average costs of various units proposed under the HG program will be as follows.

		Sale Price
Slum Clearance		
Average Unit Floor Area	80 m^2	$22,352
New Immigrants		
Average Unit Floor Area	61 m^2	17,044
Development Areas		
Average Unit Floor Area	75 m^2	20,955
Young Couples		
Average Unit Floor Area	55 m^2	15,367

Average Construction Cost per m^2 - $220.00
Average Other Cost Allocation - 27%

D. Regional Variations

The actual development costs are, however, closely related to the location of the project and specific requirement typical for such area. It is calculated that the unit costs will vary from $9,770 to $23,334 depending upon location.

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* Exchange rate $1.00 = IL 6.00 as of June 17, 1975. Since June 17, 1975, $1.00 = IL 6.12

E. TYPICAL EXAMPLE OF HOUSING GUARANTY FUNDING

Young Couples Assistance Scheme

The following is an example of a young couple purchasing an apartment at the average price of $17,670 in, for example, the City of Beersheba (Region 2 of Israel) which is designated as a development area--group B. Assume further that this young couple has been given a socio-economic profile rating that is 1,400 points or more. This young couple is, therefore, deemed qualified for a mortgage loan of $13,333 (IL 80,000)* requiring an initial monthly payment towards amortizing the loan in the amount of $60.83 (365 IL) for a period of three years. Additional monthly payments for hazard insurance and property maintenance are minimal.

The family monthly income of this young couple qualifying for this loan amounts to $245, somewhat below the median monthly family income of urban families of $277. It is assumed that homebuyers in this income group are willing and able to pay up to 25% of their monthly income in mortgage payments.

The following table is based upon an 8.25% interest rate with a variable rate of monthly payment over a term of twenty years which illustrates the periodic increases in monthly payments over the term of the loan.

Twenty Year - $13,333 (80,000 IL) Loan @ 8.25% Per Annum

Years	Monthly Payments ($)	Monthly Payments (IL)
1 - 3	$ 60.83	365
4 - 5	76.33	460
6 - 7	89.33	536
8 - 9	104.13	625
10 - 11	120.83	729
12 - 13	131.66	850
14 - 15	165.13	991
16 - 20	199.34	1,196.08

* In some cases, an additional loan of $1,666 may be made available to young couples in the above example having a socio-economic profile of 1400 points or more.

The homebuyers ability to handle increases in monthly payments over the term of the loan is premised on projected future increases in monthly family income.

The required down payment would amount to $4,337 plus closing costs. However, about 1/2 of the down payment would be further reduced by a grant1/ of approximately $2,200 based on the additional benefits to homebuyers deemed appropriate by the Ministry of Housing to compensate for higher construction costs in this development region due to distance, investment in infrastructure and special costs.

Closing costs would amount to $138.66 representing a payment of 1% of the loan amount for registration of the mortgage in the land registry in addition to a government tax of .04% of the loan amount for stamping the sales contract.

Repayment of the 8.25% interest on the above indicated loan of $13,333 (80,000 IL) is obtained as follows:

Number of Monthly Payments	Full Interest P.A.	Deferred Interest	No. Lbs. for which Payment Deferred
036 (First three years)	8.25% interest only	2.79	185.20
024 (Next two years)	8.25% [illegible]	[illegible]	[illegible]
024 (Next two years)	8.25% interest only	.22	14.80
024 (Next two years)	8.25% P & I		
024 (Next two years)	8.25% P&I		
024 (Next two years)	8.25% P&I		(85.20)*
024 (Next two years)	8.25% P&I		(85.20)*
060 (Last five years)	8.25% P&I		(85.20)*

* Amount included in monthly payment to make up payments previously deferred.

In summary, interest not paid during the first seven years accumulates and is to be paid in monthly payments during the last 9 years of the mortgage loan.

In the above example the mortgage bank handling this particular loan would retain a management fee of 1 1/4% per annum interest from the 8 1/4% collected from the homebuyer.

All public housing is subsidized by the State of Israel.

Whatever difference exists between the prevailing market interest rate and the interest rate charged to the homebuyer (less mortgage bank management fee), is considered a subsidy by the Ministry of Finance.

1/ Also referred to as a "standing loan". The homebuyer is technically obligated to repay a portion of the "standing loan" if the home is sold within 5 years from date of occupancy. The "standing loan" obligation is reduced 20% each year. After 5 years it becomes an outright gift to the homebuyer.

VII. ECONOMIC CONSIDERATIONS

A. Income Distribution

According to Israeli Central Bureau of Statistics and shown in the following table, 50 percent of urban employees families by the end of 1974 earned an annual income of less than IL 20,000 or a monthly income of less than IL 1,666. The income figures include the earnings of all employees in urban localities. At the time of the last income survey this approximated 90 percent of all employees in Israel.

Urban Employees Families
Total Family Income

Gross Annual Income Groups	1973	1974	
up to 4,999	3.8%	2.0%	lower 50%
5,000 - 5,999	1.7	1.6	
6,000 - 7,999	6.4	1.9	
8,000 - 9,999	10.4	6.3	
10,000 - 12,499	14.8	6.6	
12,500 - 14,999	13.2	11.2	
15,000 - 19,999	18.4	20.6	
20,000 - 24,999	12.4	13.5	upper 50%
25,000 - 29,999	7.5	10.9	
30,000 plus	11.4	25.4	
TOTAL	100.0%	100.0%	

Gross Income Per Urban Employee Family
Annual, Monthly and Percentage Charge
(In Israeli Pounds)

	Annual Average Income	Annual Median Income	Monthly Average Income	Monthly Median Income	% Change Median Income
1973	17,500	14,900	1,458	1,241	.12
1974	-	20,000	-	1,666	.34

SOURCE: Cental Bureau of Statistics

B. The Domestic Economy and Emergency Economic Program

The economy of Israel has been in a transitional phase since the 1973 War. The post 1967 boom has continued in several important aspects through

1974 and into 1975. During 1974, Gross National Product (GNP) increased by 6.6 percent, unemployment was virtually nonexistant at the 3 percent level, and the Consumer Price Index increased by 56.2 percent during the year which was more than double the rise in 1973 and quadrupled the rise in 1972.

On November 10, 1974, the GOI announced an Emergency Economic Program designed to ameliorate the economic situation. The Israeli Pound (IL) was devalued by 42.9 percent. Subsidies on basic commodities were reduced, fuel prices were raised for the third time since the October War, the travel tax was increased, the import surcharge was reduced from 35 to 15 percent yielding an effective rate of exchange for imports of IL 6.90 compared to IL 5.67 previously. Imports of certain luxury items were prohibited for six months and an additional import duty of 10 percent was imposed on other luxury articles. Export incentives were changed so that the effective rate of exchange for exports was IL 7.23 and IL 7.64 per dollar, depending upon the value added, for a net increase of about 20 percent.

C. <u>Budget</u>

The budget for GOI FY 1975 (ending March 31, 1976) projects total spending at IL 56.3 billion, compared to IL 40.4 billion in FY 1974-75, a nominal increase of 38 percent. Total revenues are estimated at IL 54.8, which is IL 1.5 billion less than expenditures. The difference will come from the Bank of Israel lending to the GOI.

Of the IL 5.4 billion required to finance the 1975 Public Housing Program, IL 3,8 billion originates in the country's budget. This figure represents 6 1/2 percent of Israel's overall budget expenditures. The subsidy both direct and indirect for the housing sector amounts to IL 1.9 billion or approximately 3 1/2 percent of the country's total budget. The subject of the Israeli subsidy program and its corresponding cost to the government was a topic of discussion of SER/H and GOI officials last year. We are pleased to note that the GOI took concrete steps to reduce its land subsidy program in its budget for FY 1975.

D. <u>Balance of Payments and Foreign Debt</u>

During 1974, Israel's balance of payments was in deficit by nearly $800 million. The current account deficit reached $3.4 billion, a 31 percent increase over 1973. Israel traditionally finances its current account deficit with massive capital imports. Unfortunately, 1974 was a poor year for the capital account, which totalled $2.3 billion compared with $3.2 billion, a year earlier. Unilateral transfers declined from an all time high in 1973 of $2.2 billion to $1.6 billion in 1974, of which $650 million was from the United States Government.

At the end of 1974, Israel's foreign debt amounted to $6.2 billion. While Israel's foreign debt is large it must be measured in the perspective of the country's ability to service it. This in turn depends upon the term structure of the debt, the concessional element and the overall performance of the economy. While the GOI resorted to commercial borrowing to shore up its foreign exchange position in 1974, the bulk of Israel's foreign debt is in long term maturities, at concessional interest rates. The $25 million long term A.I.D. loan will increase the outstanding debt by four-tenths of one percent. Hence, given the terms, the HIG loan will be economically beneficial to the country. Israel's foreign debt burden in FY 1975-76 will total $715 million, $321 million for interest payment and $395 million for principal.

E. Future Prospects

For GOI FY 1975 the Government of Israel estimated that GNP will reach IL 76.4 billion, up 41 percent in nominal or up three percent in real terms over the previous year. The increase in the Consumer Price Index is optimistically forcast at 18 to 20 percent. The current account is projected to be in deficit by approximately $3.3 billion. Unemployment while officially forecast at 5 percent still remained at 3.3 percent at the beginning of May 1975.

ANNEX I

LOCATION OF HOUSING UNITS	TOTAL	IMMIGRANTS	SLUM CLEARANCE	YOUNG COUPLES	DEVELOP-MENT AREAS
Total	21,532	9,098	3,721	3,791	1,818
Total - Galillee Region	3,832	1,518	297	440	1,577
Tiberias	282	76	42	108	56
Karmiel	594	366		68	160
Nazareth	621	300		84	237
Kiryat-Shemona	982	56		36	890
Other Locations	1,353	720	255	144	234
Total - Haifa Region	2,639	1,857	705	953	124
Ma'alot	288	96	48	54	90
Akko	363	261	66	36	
Haifa	728	365	251	112	
Other Locations	2,260	1,135	340	251	34
Total - Tel Aviv Region	5,890	2,541	1,812	1,373	164
Ashdod	865	475	126	180	84
Bat- Yam	240	113	32	95	
Lodd	431	284	83	64	
Natanya	337	267	6	64	
Tel Aviv	966		678	88	
Other Locations	3,051	1,402	887	882	80
Total - Negev Region	3,246	1,768	243	591	644
Eilat	402	160	54	116	72
Bees-Sheva	1,572	838	118	326	290
Arad	286	212		20	14
Other Locations	986	518	71	129	268
Total - Jerusalem Region	2,861	1,414	664	434	349
Ashkelon	288	124	88		76
Kiriat-bet	480	211	96	100	73
Jerusalem	1.173	685	377	111	
Other Locations	920	394	103	223	200

SOURCE: Ministry of Finance/Ministry of Housing

ANNEX

General Terms of Housing Assistance Loans

SCHEME	ELIGIBILITY	SIZE OF LOAN	MINIMAL-MAXIMAL LOANS (IL.)
New Immigrants	Universal	Graduated - based on family size and location	30,000 - 100,000 (cont'd)
Families in overcrowded units (3+)	Universal	Graduated - based on size of family	40,000 - 100,000 (cont'd)
New Households (Young Couples)	Universal	Graduated - based on social criteria and location	40,000 - 95,000 (cont'd)
Settlers in Development Areas	Universal	Graduated - based on location	40,000 - 95,000 (cont'd)
Home Improvement Loans	Selective	Individual decision per merit	15,000 - 45,000 (cont'd)
Minorities	Selective	as Home Improvement	25,000 - 60,000 (cont'd)
Rural Loans	Universal	per geographic criteria	40,000 - 100,000 (cont'd)

* A socio-economic profile is completed for each applicant according to the following criteria:

Marriage Duration	0 - 200
Size of Family	0 - 300
Density in Present Flat	0 - 300
Total Income	0 - 600
Size of Family Group	0 - 600
Number of Unmarried members of Family Group	0 - 300

TOTAL - 0 - 2,000

General Terms of Housing Assistance Loans (cont'd)

SCHEME	SOURCE OF FUNDING	TERMS OF REPAYMENT
New Immigrants	Proceeds from Bank Issued Debentures	Subsidized: 3 years 5.5% 2 years 6.5% 12 years 9.0%
Families in overcrowded units (3+)	Budgetary	Subsidized: basic interest 2%. Rate of repayment increases every 3 years. Repayment in 25 years.
New Households (Young Couples)	Bank Funds up to 40,000 Budgetary above 40,000	Subsidized: Basic interest varying according to social criteria and location [illegible] repayment increases every 3 years. Repayment in 20 years.
Settlers in Development Areas	Bank Funds up to 40,000 Budgetary above 40,000	As Young Couples
Home Improvement Loans	a) Bank Funds b) Proceeds from Bank-Issued Debentures c) Budgetary	a) 10 years at 11% b) as new immigrants c) 5 years at 2%) interest 5 years at 4%) only 10 years at 7.5%
Minorities	as Home Improvement	as Home Improvement
Rural Loans	as Home Improvement	as Home Improvement, but repayment up to 40 years

STATUTORY CHECKLIST

State of Israel

Section 221:

The total face amount of guaranties issued, outstanding at any one time, shall not exceed $355,000,000.

Section 221 and 222(b)

The proposed program qualifies under the following criteria:

1. The Guaranty will finance self-liquidating housing projects suitable for conditions in the host country.

2. It will promote the development of thrift and credit institutions engaged directly or indirectly in the financing of home mortgages.

3. It is a local participation project in which 25% or more of the aggregate mortgage financing will be provided from sources within the host country.

Section 223(a)

The A.I.D. guaranty fee will be in an amount consistent with fees previously charged for housing guaranties authorized by A.I.D. in accordance with the powers delegated by the President.

Section 223(f)

The maximum rate of interest allowable to the eligible U.S. investor to be prescribed by A.I.D. will not be more than one per cent above the current rate of interest applicable to housing mortgages insured by the Department of Housing and Urban Development.

Section 223(h)

No payment may be made under any guaranty issued for any loss arising out of fraud or misrepresentation for which the party seeking payment is responsible.

Section 238(c)

The guaranty agreement will cover only lenders who are "eligible U.S. Investors" within the meaning of this section of the statute at the time the guaranty is issued.

Section 620

There is no available information prohibiting the furnishing of assistance to the State of Israel.

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D. C. 20523

GUARANTY AUTHORIZATION

Provided From: Housing Investment Guaranty Authority

STATE OF ISRAEL

Pursuant to the authority vested in the Assistant Administrator, Bureau for Near East and South Asia, by the Foreign Assistance Act of 1961, as amended (FAA), and the delegations of authority issued thereunder, I hereby author the issuance of guaranties pursuant to Section 221 of the FAA of not to exceed twenty-five million dollars ($25,000,000) face amount, assuring against losses (of not to exceed one hundred per cent of loan investment and interest) with respect to loans by eligible U.S. investors (Investor) acceptable to A.I.D. for the financing of public housing programs through Israeli mortgage banks.

This guaranty shall be subject to the following terms and conditions:

1. Term of Guaranty: The loans shall extend for a period of up to thirty years (30) from the date of disbursement of the first installment of the loans. The guaranty of the loans shall

extend for a period beginning with the first disbursement of the loans and shall continue until such time as the Investor has been paid in full pursuant to the terms of the loans.

2. Interest Rate: The rate of interest payable to the investor pursuant to the loans shall not exceed the allowable rate of interest prescribed pursuant to Section 223 (f) of the FAA and shall be consistent with rates of interest generally available for similar types of loans.

3. State of Israel Guaranty: The Government of the State of Israel shall provide for a full faith and credit guaranty to A.I.D. in United States dollars assuring against any and all losses to A.I.D. by virtue of A.I.D.'s guaranty to the Investor or from non-payment of the guaranty fee.

4. Fee: The fee of the United States shall be payable i dollars and shall be one-half of one per cent (½%) per annum of the outstanding guarantied amount of the loans plus a fixed amount of $100,000 to be paid as A.I.D. may determine upon disbursement of the loans.

5. None of the guarantied funds shall be used to finance housing located outside of the territory subject to the admini tration of Israel prior to June, 1967.

6. <u>Other terms and Conditions</u>: The guaranty shall be subject to such other terms and conditions as A.I.D. may deem necessary.

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Assistant Administrator
Bureau for Near East and South Asia