

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

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EXTENDED RISK HOUSING GUARANTY PAPER

Proposals and Recommendations  
for the Review of the  
Far East Capital Projects Executive Committee

TAIWAN: UNITED BUILDERS, LTD

UNCLASSIFIED

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Taiwan - Housing Guaranty Project 484-HG-001  
United Builders, Ltd., Taipei, Taiwan

Annex I hereto is an FHA paper (Analysis and Recommendation) recommending, subject to conditions stated on its pages 1 and 2, that A.I.D. guaranty 100 percent of the principal of a proposed 20-year loan, in an amount not to exceed \$5,000,000, to provide mortgage financing up to 75 percent of the selling price of 1,328 condominium apartment units to be built in Taipei. Annex II is a Statutory Check List; Annex III a draft Guaranty Authorization; Annex IV a summary of the Taiwan economic situation and prospects.

Under the proposal three U. S. Investors, Bankers Life Company of Des Moines, Iowa, Equitable Life Insurance Company of Des Moines, Iowa, and Union Mutual Life Insurance Company of Portland, Maine will provide the \$5,000,000 to United Builders, Ltd. for re-lending to home buyers. The U. S. Investors will receive 5 percent interest per annum on the unpaid balance of their loan. The home buyers will pay an effective rate of 9 percent, made up of this 5 percent plus the A.I.D. guaranty fee of 1.5 percent, a fee of 0.5 percent to Taiwan Fire and Marine Insurance Co., Ltd., a Government of China-owned corporation, which will guaranty repayment of the mortgages, a 1.5 percent contribution to a reserve fund for maintenance of value and other contingencies, and 0.5 percent make-up to the reserve fund, an amount equal to tax withholding by the Government of China from the interest remitted to the U. S. Investors. The last 0.5 percent will be subject to change, if Chinese tax-withholding increases. Any balance in the reserve fund at the end of the guaranty period will be paid to the cooperative of homeowners which will operate the condominium project. In addition, the buyers will make monthly payment covering the Administrator's fee, hazard insurance on the premises, local taxes and condominium management and maintenance charges.

The project Administrator will be the Land Bank of Taiwan, a Chinese Government-owned banking institution with substantial experience in mortgage lending. Under the A.I.D.-supported programs of assistance to fishermen and farmers (through the Joint Commission on Rural Reconstruction) the Land Bank has effectively handled thousands of small loans and satisfactorily made all required payments to A.I.D. The Land Bank will provide inspection of construction through a contract with China Building Center, a qualified government agency. The mortgage guarantor, Taiwan Fire and Marine, will pass on credit-worthiness of prospective buyers, specifically assuring that monthly payments will not exceed 25 percent of family income.

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United Builders will provide sewage collection and disposal through a treatment plant, asphalt streets, electric distribution and street lighting, a central market, landscaping, parks and recreation areas. Control of common areas and responsibility for maintenance will be turned over to the cooperative of homeowners whose membership will consist of all buyers in the project.

Authorization of a guaranty for this project as described in Annex I is recommended, subject to the following comments:

1. The reserve account discussed on page 18 of the FHA paper will be broadened in its purpose to permit its application to any short-fall of funds which otherwise would be the obligation of A.I.D. under its guaranty, including default by the Guarantor of mortgage repayment, Taiwan Fire and Marine Insurance Co., Ltd. In addition to the 1.5 percent per annum charge, this account will receive the 0.5 percent equivalent of the tax withheld by the Government of China on Investors' earnings (or such other amount as may reflect increases in tax withholding rates). This will be available to make up any difference between each Investor's Chinese tax on such earnings and the credit it may take for foreign taxes paid in computing its U. S. Federal Income Tax. This scheme affords greater protection to A.I.D. and to the Investors without increasing the monthly charges to the home buyer than the reserve only for MOV first proposed to FHA. In addition, rather than separate accounts for each Mortgagor to be held by the Administrator, there will be a single account held by the U. S. agent for the Investors, the balance of which will, upon final discharge of A.I.D.'s guaranty obligation, be paid to the cooperative of homeowners. This is far simpler administratively and gives the best assurance possible more than 20 years before the event, that any fund remaining will be used constructively for community purposes.

2. On page 21, FHA reported that the Administrator's fee would be 1 percent per annum of the unpaid balance. This would have provided payment of the bulk of this fee in the earlier years of the mortgages with little fee remaining in the last years when the administrative burden would have been no less and possibly greater. The Administrator was induced to accept a scheme of level payments which over 20 years would yield the same income as 1 percent of the declining balance. This was computed by FHA at 5.96 percent of the monthly level principal-plus-interest payments on the 9 percent mortgages. This is a reasonable fee in the circumstances and will assure a sustained incentive to the Administrator.

3. Page 20 of the FHA paper notes that the A.I.D. fee was to be paid by the Administrator to the Investors to be turned over to A.I.D. Instead, it is now proposed that the Administrator pay the fee directly to A.I.D.

4. At page 21, FHA notes that no fee for credit investigation was anticipated. A fee of \$1.25 is to be charged at each closing. FHA regards this as nominal and, therefore, allowable.

5. On pages 4 and 21 of the FHA paper there are references to the provision of construction financing by Chemical Bank New York Trust Company, London, England. It is noteworthy that United's arrangements for dollar financing were first worked out with the New York bank. When the Federal Reserve System imposed its 105 percent voluntary limitation on bank lending abroad, United was required to seek a loan commitment from a holder of dollars outside the United States.

6. On page 17 of the FHA paper it is implied that this project includes a host government full faith and credit guaranty of repayment of the mortgages in local currency. This is not the case. Although the Guarantor, Taiwan Fire and Marine Insurance Co., Ltd., is a wholly government-owned corporation, its obligations do not carry the full faith and credit of the Republic of China. It is, however, the largest of the general insurance companies in China and writes some 22 percent of all premiums written by all such companies. Its contingent liability as a guarantor has been reviewed in relation to its assets and found satisfactory upon comparison with U. S. insurers' practices and experience.

7. Several changes in the project, which affect the tables on pages 23, 24 and 25 of Annex I demonstrating closing charges and monthly payments, were brought about during negotiations with United after FHA completed Annex-I. These changes are (a) an increase in insurance premium to provide extended coverage for damage to the premises by all hazards except war, revolution, insurrection or nuclear reaction, rather than simple fire insurance, (b) inclusion in the composite interest rate of the 0.5 percent per annum of unpaid balance equivalent to Chinese tax withholding from Investors' earnings, rather than its treatment as a separate item, and (c) the deletion of 1.0 percent per annum for the Administrator's fee from the composite rate and substitution of a fixed amount in accordance with the discussion in paragraph 2, above. New tables prepared for us by FHA are Annex V hereto.

HOST COUNTRY APPROVAL:

The Government of the Republic of China has approved this project, (TOAID 100 8-11-64 LOU).

A.I.D. MISSION APPROVAL:

There has been no A.I.D. Mission in Taiwan since June 30, 1965. However, the then A.I.D. Mission stated its approval when this project was introduced. The attached FHA paper was transmitted to the A.I.D. Representative in Taipei in July 1965 and he has indicated no departure from the earlier expressions of Mission favor.

PROJECT COMMITTEE:

Nahman Zirinsky, FE/CDF, Chairman  
Charles W. T. Stephenson, GC/FE  
Paul H. Beidler, FE/ENGR  
David A. Reedy, FE/EA

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SUMMARY AND RECOMMENDATIONS

1. INVESTORS: Bankers Life Company, Des Moines, Iowa  
Equitable Life Insurance Company of Iowa, Des Moines, Iowa  
Union Mutual Life Insurance Company, Portland, Maine
2. BUILDER: United Builders, Ltd., a Republic of China Corporation.
3. AMOUNT OF GUARANTY: \$5,000,000
4. PURPOSE: To guaranty the principal of a loan by the investors for the long-term financing necessary for the construction of a demonstration private housing project located in the City of Taipei, Taiwan.
5. PROJECT DESCRIPTION: The proposed housing development consists of 1,328 apartment units in 36 four-story, walk-up buildings. Proposed selling prices range from \$4,415 to \$5,595. Purchase of the apartments will be financed with 20-year mortgages and will require a downpayment of 25 percent of the selling price. The estimated selling price for the project as a whole is \$6,663,400. The interest rate to be paid to the investors is 5 percent. However, the effective rate paid by the apartment buyer will include the AID guaranty fee of 1.5 percent, the administrator fee of 1.0 percent, maintenance of value reserve of 1.5 percent, and mortgage guarantor's fee of 0.5 percent for a total of 9.5 percent.
6. RECOMMENDATIONS: Based on its review of this proposal, the Federal Housing Administration recommends that the Agency for International Development pursuant to Section 221 of the Foreign Assistance Act, enter into a contract with the investors to guaranty a 20-year loan in an amount not to exceed \$5,000,000 which amounts to 100 percent of the required investment, subject to the following conditions:

That the sponsor-builder shall:

- a. Not begin construction of the apartments or urbanization prior to specific authorization by AID.
- b. Submit satisfactory written proof to AID that the Republic of China has approved the loan.

- c. Submit satisfactory written proof to AID that the Ministry of Finance, Republic of China, has approved issuance of a guaranty by the Taiwan Fire & Marine Insurance Company, Ltd., to repay the investors in local currency.
- d. Submit any final working drawings and exhibits deemed necessary by FHA.
- e. Submit an agreement to AID that it will not accept down-payments either directly or indirectly in the form of secondary financing.

CONCLUSIONS

1. Project as a Whole: Based on its detailed review of the sponsor's application and a field inspection, FHA has concluded that this proposed project is well-planned and feasible and that it is consistent with the objectives of the housing investment guaranty program.
2. Builder: FHA has concluded that the sponsor-builder is capable both financially and technically to carry the proposed project to a successful conclusion.
3. Sales Plan and Market: The sales plan proposed by the sponsor, including the terms proposed for financing purchase of the apartments, appears to be adequate and appropriate in the light of economic and market conditions in Taipei. Based on its investigation, FHA has concluded that there is an adequate market in Taipei for apartments of these types and prices when made available with the mortgage terms proposed.
4. Pilot Demonstration Features: This project should provide a convincing and useful demonstration of the capacity of private financing and private building to provide good housing for a hitherto inadequately served market. This project will provide an excellent demonstration of how the housing requirements of a particular income group can be served through the introduction of long-term mortgage financing and small downpayments. The financing heretofore available for commensurate housing has required the standard large downpayments and short-term mortgages, resulting in the exclusion of many of the potential purchasers who will be eligible for the more attractive terms available for this project.
5. Site: FHA has concluded that the site proposed to be used in this development is suitable for the type of housing to be constructed. Adequate urban facilities and services for the development will be provided, and it is well-situated with access to public transportation.
6. Urbanization: FHA has concluded that the proposed development plan represents a suitable, constructive, and efficient use of the project land.
7. Apartment Type and Construction: The proposed apartments are considered to be structurally sound and of architectural appeal to the income group in Taiwan they will serve.

8. Local Regulations: FHA has concluded that the proposed project complies with all local regulations. The development layout, including streets, parks, and other areas, has been approved in principle by the controlling local authority. The water supply, sanitary sewerage, and drainage systems and the apartment plans will comply with local regulations.
9. Costs and Selling Prices: Based on cost data independently gathered in Taiwan, FHA has carefully reviewed and substantiated the cost estimates and selling prices and found them reasonable. FHA has also analyzed the selling prices in relation to the limited number of comparable apartments in the market and found them to be competitive and reasonable.
10. Guarantied Investment: The Bankers Life Company and the Equitable Life Insurance Company of Iowa, both of Des Moines, Iowa, and the Union Mutual Life Insurance Company of Portland, Maine, have agreed to supply the long-term investment funds under the provisions of the Foreign Assistance Act of 1961, as amended.
11. Administrator: The Land Bank of Taiwan will accept primary responsibility for the performance of the administrator functions. The Land Bank of Taiwan appears capable of performing the functions it has agreed to undertake.
12. Construction Financing: The Chemical Bank New York Trust Company, London, England, has expressed willingness to provide construction financing if an investment guaranty is issued for this project, subject to working out the terms and conditions of a loan agreement in form and substance satisfactory to the Bank and its counsel. FHA has concluded that this arrangement will be satisfactory. However, the arrangement for the provision of construction financing should be confirmed before the guaranty contract is executed.

SECTION I - GENERAL PROJECT CHARACTERISTICS

A. General Description of the Project

The housing project, sponsored by United Builders, Ltd., and to be known as "Union Villa II" is located in the Sung-shan District within the municipal limits of the City of Taipei, approximately 3.75 miles northeast of the central business district of the City, within a mile of the Keelung River, and about two-thirds of a mile due south of the Taipei International Airport. Adequate paved access on primary and secondary roads is available to the project. The site is so situated geographically that it lends itself well to development for residential purposes.

The project will encompass approximately 54.5 acres with a total of 1,328 2- and 3-bedroom apartments in 36 four-story, walk-up buildings. Areas will be reserved for a school, parks, playgrounds, market, and parking. The development will be serviced by all necessary utilities and facilities. The developer will install sanitary sewerage, water supply, and electric distribution systems according to the requirements of the local regulatory agencies. Electric power will be supplied by the Taiwan Power Company.

The apartments will be sold in condominium ownership whereby the apartment owner will have title to his apartment and an undivided interest with the other apartment owners in common areas and facilities serving the buildings. Ownership will be subject to the condominium laws of Taiwan. Maintenance and operation of common areas and facilities serving the buildings will be done through a Board of Directors composed of nine members, seven of which will be elected by the owners and the remaining two will be designated by the Land Bank of Taiwan and the Taiwan Fire & Marine Insurance Company.

The apartment prices range from \$4,415 to \$5,595. Purchase of the apartments will be financed with 20-year mortgages and will require down-payments of 25 percent of the selling price. The estimated selling price for the project as a whole is \$6,663,400. The total amount of the mortgages will be \$4,996,886.

The U.S. investors will be the Union Mutual Life Insurance Company of Portland, Maine, and the Bankers Life Company and the Equitable Life Insurance Company of Iowa, both of Des Moines, Iowa. The administrator in the host country will be the Land Bank of Taiwan, a banking institution specializing in land and agricultural finance. This bank is primarily

engaged in accommodating land and agricultural credit, promoting agriculture development, and assisting the government in carrying out its land and agricultural policies. Its banking business can be divided into three categories, namely, specific loans, general banking business, and savings banking business. The specific loans are aimed at boosting agricultural and fishery production and promoting national housing projects, with main emphasis placed on land and agricultural financing. At the end of December 1963, housing loans handled by the bank under the national housing program with the loaning fund appropriated by the government, had been extended to 43,457 applicants with an accumulative amount up to NT \$514,515,000 (\$12,862,875 US) of which NT \$393,915,000 (\$9,847,875 US) was outstanding. In addition to the loans handled under that program, loans have also been extended by the Bank from its own sources.

The Land Bank of Taiwan was proposed as administrator subsequent to our field examination and, the FHA Field Inspection Team, therefore, was not able to make an investigation to determine its qualifications to act as administrator in this project. However, we understand, the Bank is well-known to AID and that there is no question as to its competency to perform the functions as administrator. The administrator will service the mortgages, and will have a full-time inspector, acceptable to AID, who will certify to the satisfactory construction and completion of the apartments. The administrator will request disbursement of funds from the U.S. investors for the number of housing units that have been certified by the inspector, sold and on which title has been conveyed to the purchasers.

The Taiwan Fire & Marine Insurance Co., Ltd., a company owned and controlled by the Government of the Republic of China, will guaranty repayment of the U.S. investment in local currency.

B. Builder

The project will be constructed by United Builders, Ltd., a corporation organized and existing under the laws of the Republic of China. Fifty-five percent of the outstanding capital stock of United Builders, Ltd. is owned by Mr. Hon-en Su and his associates, all citizens of the Republic of China. The balance of the outstanding stock will be owned by Robert F. Lusher of New York, New York.

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Mr. Su has been engaged in various financial and business projects in Taiwan. A letter in our files from the Land Bank of Taiwan indicates that Mr. Su and two local associates borrowed a public housing loan in the amount of NT\$24,606,900 (\$613,638 US) from the Bank to construct 101 buildings consisting of 404 apartments at Union Villa I which is near the subject development. The letter also indicates that this same group obtained another loan from the Bank in the amount of NT\$3,500,640 (\$87,297 US) to construct 13 buildings consisting of 52 apartments in the same project. The Bank indicates that the repayment of these loans has been satisfactory. Mr. Su will participate directly in the supervision of construction of the development. He recently traveled to the United States, Denmark, Switzerland, France, and Japan to observe building techniques and marketing methods for utilization in this project.

Mr. Lusher will be present in Taipei during construction of the project and will personally supervise construction. Mr. Lusher as an attorney with the firm of Cravath, Swaine, and Moore in New York City specialized in international real estate and was involved in the implementation of a number of Latin America housing projects. Mr. Lusher has also engaged as a principal in a number of housing rehabilitation projects in New York City in which he participated as general contractor. Favorable references as to Mr. Lusher's capabilities, character, and financial standing have been received from the Citizens Banking Company of Perrysburg, Ohio, and the Chemical Bank New York Trust Company of the City of New York.

The builder has proposed that Mr. Leslie Larson, the New York architect involved in the coordination of the design of the project, provide architectural supervision through frequent site inspections during the course of construction.

Haigo Shen & Victor Associates of Taipei has been retained to perform all architectural and engineering work for the project. This is one of the leading architectural firms in Taiwan having designed projects worth in excess of \$8,000,000 between 1960 and 1963.

Construction of the apartments is scheduled to begin immediately after final agreements are signed by the investors and AID. After the first five months it is expected that 180 units will be completed every two months. The FHA based on all information available has concluded that the sponsor is capable of carrying the project to a successful conclusion.

C. Sales Plan

United Builders, Ltd., will have its own sales organization which will take applications from prospective purchasers for final credit and income clearance by the Taiwan Fire & Marine Insurance Company. All apartment

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units contained in each building will be presold prior to the commencement of construction of the building. Promotional work will consist of newspaper advertising and brochures. The sponsor has reported that payments have already been received from some 648 qualified purchasers. It has also reported that the money received as downpayments has been placed on time deposit with the Taipei Mutual Savings and Loan Company, Ltd. FHA recommends that the sponsor be required to transfer all downpayments received prior to execution of the guaranty contract to a special escrow account to be established by the administrator.

D. Market

At the time of our field examination the population of Taiwan was estimated by USAID/China to be between 11,500,000 and 12,000,000 with a rate of growth of 3.21 percent. The population of the City of Taipei was estimated at over 1,000,000 with a rate increase of 5 percent per year.

According to a recent report compiled by the Provincial Department program, the annual housing requirement for Taiwan is estimated at 100,000 units with some 70,000 units required for population increase and 30,000 units required for replacement.

USAID/China estimates that at least 25,000 housing units are required in the City of Taipei.

Large scale apartment projects developed over the past few years in Taipei to serve the needs of the middle income group have been generally successful. The purchase terms offered in these developments required 50 percent downpayments and a 5-year mortgage. It is expected that the demand for the proposed apartments will encompass a much broader segment of the market than the projects that have been developed over the past few years because of the liberal financing terms being offered. Financing comparable to that being offered by this project is not otherwise available to the income groups to be served.

Data regarding personal income distribution in Taiwan is extremely limited and not particularly pertinent since any income figures would have to be analyzed to allow for receipt of "wages in kind" which is prevalent in Taiwan. The "wages in kind" may include any or all of such elements as food, clothing, housing, transportation, et cetera.

Based on the demonstrated shortage of housing in Taipei, lack of adequate financing, and acceptance in recent years of developments offering less attractive terms, we conclude there is a sufficient market for the apartment units proposed in this application, provided they are made available with the mortgage financing contemplated. In addition, we believe that the existence of a market is evidenced by the fact that the sponsor reported that as of June 1965, it had received approximately 648 downpayments from qualified prospective purchasers and expressions of interest from 900 additional potential buyers.

E. Pilot Demonstration Features

This project will provide an excellent demonstration of how the housing requirements of a heretofore inadequately served income group can be satisfied through the introduction of long-term mortgage financing and small downpayments. The project should also serve to demonstrate volume marketing, volume mortgage servicing, and volume production.

SECTION II - TECHNICAL ASPECTS

A. Site

The proposed site of the United Builders, Ltd.'s "Union Villa II" project, containing approximately 54.5 acres of undeveloped land, is located in the northern section of the Sung-shan District within the municipal limits of the City of Taipei, about 3.75 miles by normal route northeast of the central commercial district of the city. The site is shaped in the form of a truncated trapezoid with a section removed from the northwest quarter. Boundary lines lie in an east-west, north-south direction with the exception of the southern portion of the west boundary, which lies in a northwesterly direction. The proposed site is relatively level with extensive rice paddies and an irrigation system consisting of earth dikes, embankments, and walkways.

The specified site is bounded on the west by the Kwan Fu Road North, and small individually owned farm plots; on the north by the Min Chiuan Road and an area set aside by the local government for future school construction; on the east by Min Sheng Road; and on the south by property of the Chinese Air Force General Hospital, and additional small farm plots. Access to the site is from Kwan Fu Road North, a relatively wide paved street which joins Nanking Road East, one of the principal thoroughfares of the City, about a quarter of a mile to the south of the southwest corner of the site. A secondary unpaved access street on a straighter and narrower route joins the south center of the site with Nanking Road East.

Topographic conditions are such that surface drainage should present only minor problems. The proposed site slopes gently from northwest and southeast to a drainage swale which flows in a northeasterly direction across the southeast section of the property toward the Keelung River, about a mile and a quarter to the northeast. Subsoil conditions present problems requiring special foundations. However, the soil conditions are typical of the entire region and it has been ascertained that the special foundations proposed have been used successfully in that area.

A 10-inch municipal water main, located in Nanking Road East, is available to the site, and will provide an adequate supply of potable water with the assistance of the pressure pumps proposed.

No sanitary sewer lines are available to the proposed site. However, the sponsor proposes to install a complete sanitary sewerage system, including a sewage treatment plant, in accordance with plans and specifications to be approved by local health authorities. Surface drainage will be provided.

Electric power is available to the site through the facilities of the Taiwan Power Company with sufficient capacity to meet the operational requirements for public lighting and domestic service.

Public transportation to the principal shopping and employment areas of the city is available.

Minor educational and shopping facilities are within reasonable distance of the proposed project. In addition, the sponsor proposes to provide on-site shopping, recreational facilities, and a school site of approximately  $3\frac{1}{2}$  acres. There is also reasonable assurance that an elementary school of adequate capacity and conveniently located on approximately  $6\frac{1}{2}$  acres will be built under the sponsorship of the Taiwan Provincial Normal University in the near future. Police and fire protection as well as garbage collection services will be provided by the municipality.

The proposed site is situated in a semi-rural area which is being rapidly absorbed by the urban expansion of the city. Additional residential developments are underway in the close vicinity of the proposed project. The site definitely lies in the path of future urban growth and is included in the Mayor of Taipei's proposed community plan.

The project site and location are considered appropriate for the housing development proposed.

#### B. Urbanization

The proposed site development plan consists of 15 rectangular blocks of varying dimensions, one of which will be utilized for a central park and commercial area and another for a parking area. Thirteen blocks, all of which provide small recreational areas and parking space, will be utilized for housing purposes.

The proposed street layout consists of a system which subdivides the property into rectangular blocks whose principal axes lie in an east-west direction, allowing a north-south orientation for the structures. Through circulation is provided to all surrounding streets. All streets will be asphalt-paved and at each side will have concrete drainage trenches with removable concrete covers, concrete curbs, and concrete sidewalks finished with quarry tile. The municipality will absorb two-thirds of the cost of paving the principal streets. All remaining paving costs for streets, parking areas, and sidewalks are to be charged to the project. Each of the proposed buildings will front on a paved street. Suitable landscaping of common areas that includes plantings, ornamental fountains, reflecting and wading pools, foot bridges, and sand boxes will be provided. The street widths and layout conform to local standards which are considered to be satisfactory.

The proposed water supply system is well-planned and adequate to meet the needs of the project. The public water supply system will be extended to the site. The extension of the existing public water supply system and the distribution system within the project site will be charged to the project. The water distribution system will include fire hydrants at reasonable and regulated intervals. The water distribution system is considered suitable for the proposed development.

The sanitary sewerage system, including a sewage treatment plant located about 450 feet from the site on an additional piece of land of about 1,765 square meters, acceptable and subject to the approval of local health authorities, will provide a secure disposal of soil and waste from the individual dwelling units. Proposed sewer lines and main sizes, gradients, and clean-out points are considered adequate. Effluent from the system will empty into a neighboring stream which flows into the Keelung River. The entire sanitary sewerage system, including the sewage treatment plant, will be charged to the project. Topographic conditions of the site are such that surface drainage can be adequately cared for by the street system. The sanitary and storm sewer systems proposed are considered to be satisfactory.

The sponsor proposes to install an underground electrical distribution system within the project, including street and common area lighting and domestic service to individual apartment dwelling units. The electrical distribution system will be charged to the project. All electrical work will be in accordance with the installation requirements of the Taiwan Power Company, whose regulations are considered to include reasonably high standards.

The electrical distribution system, including street lighting, will be operated and maintained by the Taiwan Power Company. The condominium will maintain and operate the streets, park areas, sanitary sewerage and water supply systems, recreational areas, and common areas through a homeowner's association.

The proposed urbanization scheme is considered appropriate and suitable for the project site.

#### C. Unit Types and Construction

The sponsor proposes to construct 1,328 apartment units in 36 four-story walk-up buildings. There will be approximately 398 2-bedroom and 900 3-bedroom units. Whether each particular unit will have two or three bedrooms will depend on the partition arrangement, which, according to an established custom in Taiwan, is dictated by the purchaser. Therefore, the specific number of 2- and 3-bedroom units will depend on the demand and desires of the purchasers.

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All dwelling units will have 1,037 square feet of building area excluding balconies, terraces, and stairwells. Each apartment unit will include a living-dining area, 2 or 3 bedrooms, kitchen, and bathroom containing toilet, lavatory, and glazed tile tub with shower. In addition, it will have servant's quarters with toilet and shower. Each apartment unit will have one entry through the living room and one through the kitchen. There will be one stairwell at the front and one at the rear, common to each two units at each level. Front and rear terraces are provided to first floor units, and front and rear balconies for upper floor units. Plans for both the 2-bedroom and 3-bedroom units provide adequate privacy, space, natural light, and ventilation. The disposition of rooms, closet and storage space, and circulation is considered to be well-designed and appropriate for the type of condominium apartment units proposed.

The method of construction proposed is consistent throughout all the apartment structures. Extra wide, continuous reinforced concrete footings and grade beams are proposed to carry superimposed loads, effecting a strapped footing foundation suitable for the soil conditions. The superstructure will consist of a reinforced column, concrete girder, beam, and slab system. This system is designed as a continuous reinforced concrete structure to resist the abnormal lateral wind and earthquake loads encountered at times in the Taiwan area.

Exterior wall panels will be solid brick masonry of suitable thickness plastered on the interior face and a "NYASIT" exterior finish (a colored stucco sprayed on in two thin coats over a cement plaster base), with door and window fenestration. The fixed interior partitions around the principal bathroom, kitchen, and servant's quarters and bath will be solid 9" x 4½" brick masonry. All other interior partitions will be 2" x 4" wood stud walls, wood lathed and plastered both sides. The principal bathroom will receive a white glazed tile wainscot of suitable heights on all walls and around the glazed tile tub. All remaining masonry walls are to be plastered and painted with material suitable to expected exposure.

Floor finish for the living-dining and sleeping areas will be vinyl tile and base trim. The servant's quarters and bath and the kitchen will have terrazzo floors. Principal bathroom floors will have mosaic tile finish. Ceilings of all rooms will be finished in lime plaster with the exception of the principal bathroom ceiling, which will be furred down and finished with a waterproof plywood.

The principal stairs serving six units will be reinforced concrete with terrazzo landings, risers, and treads. The rear service stairs will also be of reinforced concrete with a plain cement finish. Balcony and terrace floors, front and rear, will be terrazzo. Appropriate hand and guard rails are furnished for all stairways, balconies, and terraces.

Exterior door and window frames of suitable design will be fabricated from cypress. Exterior doors will be hollow core, flush plywood with a water resistant treatment to exposed surfaces, and a simulated pine paneling inner face. Interior doors will be hollow core, flush type plywood with cypress frames and trim.

A roof finish consisting of 3-ply asphalt felt with four layers of hot asphalt and 4-inch hollow concrete tile insulation will be applied over the reinforced concrete roof slab.

Plumbing installations including hot water heaters and the electrical installations and fixtures are considered suitable. Appropriate garbage stands and chutes are conveniently located to serve banks of dwelling units in each structure.

The design of separate structures and individual apartment dwellings, method of construction, and use of materials are considered appropriate and appealing to the income groups to which the housing development is directed.

D. Local Regulations

The proposed method of construction is in compliance with local regulatory agencies. The site development plan, including streets, parks, and other areas has been approved in principle by the controlling local authorities. Water supply, sanitary, and storm sewer systems will comply with local regulations, which are considered to include reasonably high standards. The building plans will comply with local regulations.

E. Cost and Selling Prices

The following costs and selling prices are based on estimates submitted by the sponsor, which have been reviewed and amended by FHA. On the basis of this review, which includes FHA field verification of direct costs of construction and other charges, these selling prices are considered reasonable. In addition, the selling prices have been compared with the limited number of comparable apartments in the market and found to be reasonable and competitive. An exchange rate of 40.1 New Taiwan dollars per U.S. dollar has been used.

Entire Project

|                                       |                |
|---------------------------------------|----------------|
| Direct Cost of Apartment Construction | \$4,203,944    |
| Direct Cost of Urbanization           | <u>431,600</u> |
| Total Direct Cost of Construction     | \$4,635,544    |
| Other Costs                           | 670,640        |
| Cost of Raw Land                      | <u>900,384</u> |
| Total Cost                            | \$6,206,568    |
| Profit (Estimated)                    | <u>456,832</u> |
| Selling Price                         | \$6,663,400    |

Individual Apartment Units

2 Bedroom  
(96 Sq.M.)

| <u>Floor</u> | <u>No. of Units</u> | <u>Selling Price</u> |                    | <u>Total</u>         |
|--------------|---------------------|----------------------|--------------------|----------------------|
|              |                     | <u>U.S. Dollar</u>   | <u>N.T. Dollar</u> | <u>U. S. Dollars</u> |
| 1st          | 100                 | 5,525                | 221,552.50         | 552,500              |
| 2nd          | 99                  | 5,109                | 204,870.90         | 505,791              |
| 3rd          | 99                  | 4,831                | 193,723.10         | 478,269              |
| 4th          | 100                 | 4,415                | 177,041.50         | 441,500              |
| Total        | 398                 |                      |                    | 1,978,060            |

3 Bedroom  
(96 Sq.M.)

| <u>Floor</u> | <u>No of Units</u> | <u>Selling Price</u> |                    | <u>Total</u>         |
|--------------|--------------------|----------------------|--------------------|----------------------|
|              |                    | <u>U.S. Dollar</u>   | <u>N.T. Dollar</u> | <u>U. S. Dollars</u> |
| 1st          | 233                | 5,593                | 224,279.30         | 1,303,169            |
| 2nd          | 232                | 5,177                | 207,597.70         | 1,201,064            |
| 3rd          | 232                | 4,899                | 196,449.90         | 1,136,568            |
| 4th          | 233                | 4,483                | 179,768.30         | 1,044,539            |
| Total        | 930                |                      |                    | 4,685,340            |

In determining the selling prices of the individual apartment units, the total cost of the project as a whole has been prorated to individual apartments according to size and floor location. This is in accordance with Taiwan custom under which the costs of a building are distributed among the individual apartments by assigning a higher selling price to the first floor apartments and decreasing the selling price gradually for the second, third, and fourth floor apartments.

Other costs include builder's overhead, architectural-engineering fees, marketing, financing, legal expenses, broker's fee, and electrical installation fee to Taiwan Power Company.

The amount of profit shown has been estimated in accordance with standard procedures. A cost estimate cannot reflect the efficiency of the sponsor's organization; therefore, the exact profit realized by the sponsor may be more or less than the dollar amount indicated.

Selling prices have been estimated on the basis of existing material and labor costs as of March 1965. Should the direct cost of construction (labor, materials, and job overhead) increase due to increases in costs of labor and materials, the selling prices of the apartment units may be

raised in accordance with such increases. The increases would be subject to AID approval after the sponsor's submission of evidence justifying increases and after recommendation by FHA.

SECTION III - FINANCIAL ASPECTS

A. Guarantied Investment

The investment to be guarantied by AID consists of a proposed 20-year loan of \$5,000,000 at 5 percent interest to be provided by the investors, Union Mutual Life Insurance Company, Portland, Maine, Bankers Life Company, and Equitable Life Insurance Company of Iowa, both of Des Moines, Iowa, to the United Builders, Ltd., representing first mortgages held in trust by the Land Bank of Taiwan. The AID guaranty will apply to an amount equivalent to 100 percent of the funds disbursed by the investors to the administrator. It is proposed that the Taiwan Fire & Marine Insurance Co., Ltd., a company owned and controlled by the Government of the Republic of China, guaranty the repayment of the investment in local currency. Our files contain a translation of a letter from the Taiwan Fire & Marine Insurance Co., Ltd., to United Builders, Ltd., to this effect, subject only to the final approval of the issuance of such guaranty by the Ministry of Finance, Republic of China. The Ministry of Finance is not in a position to provide final approval until the formal guaranty language has been finalized. This, in turn, cannot be done until AID has agreed upon the form of the language. Therefore, the AID guaranty will have to be conditioned upon approval by the Ministry of Finance.

Each of the investors is to receive as a commitment fee from United Builders, Ltd., an amount in United States dollars equal to 1 percent of the aggregate principal amount of its promissory notes delivered to them on the date of each takedown. In addition, United Builders, Ltd., will reimburse each of the investors for all out-of-pocket expenses in connection with the transaction including the reasonable fees and expenses of their counsel in connection therewith, such expenses not to exceed an aggregate of \$40,000.

United Builders, Ltd., has also agreed to the payment of \$40,000 to Kuhn, Loeb & Co. Incorporated as its fee for services and advice in connection with the placement of the \$5,000,000 loan with the investors.

The Agency for International Development will receive a fee of 1.5 percent per annum of the unpaid balance of the mortgages held in trust by the administrator. This fee is consistent with AID policy regarding guaranty fees to be charged when the host government guaranty is a full faith and credit obligation in local currency of the host government.

The U.S. dollar loan by the investors will be repayable in dollars in the United States from New Taiwan dollar funds accumulated from payments on mortgages by the mortgagors and converted into dollars by the

administrator. A maintenance of value reserve for the account of the apartment owner will be established to protect the Agency for International Development against devaluation by charging the apartment owner 1.5 percent per annum of the unpaid balance of the mortgage. The local currency received by the administrator for the maintenance of value reserve will be converted into U.S. dollars and deposited in a U.S. bank. A reserve for default fund will not be established for this project, as this housing guaranty proposal is predicated on the premise that the Taiwan Fire & Marine Insurance Co., Ltd., will guaranty the payment of the principal and interest on the mortgages in local currency. If the funds available from monthly payments by mortgagors, the maintenance of value reserve, and the cash proceeds for delinquent payments from the Taiwan Fire & Marine Insurance Co., Ltd., are not sufficient to meet the monthly payments in dollars to the investors, and the investors wish to be taken out of their investment, AID will pay U.S. dollars to the investors under its guaranty. Upon taking out the investors, AID will receive the interests held by the investors in the mortgages, and the maintenance of value reserve fund. AID will have the right to make up delinquent payments of principal and interest to the investors, in lieu of taking the investors out of their investment.

In case of default, the administrator will assign to the mortgage guarantor, the entire right, title, and interest in and to such mortgage (including the right to unpaid interest thereon) and the guarantor will pay to the administrator, for the benefit of the investors, the aggregate unpaid principal amount of the mortgage with respect to which such default has occurred together with all interest accrued and unpaid thereon to the date of such default. FHA recommends that consideration be given during the drafting of the Administration Agreement to the use of the maintenance of value reserve funds to pay the investors for delinquent monthly payments pending receipt of the proceeds from the guarantor and that the amount borrowed from the maintenance of value reserve be replaced when the proceeds from the guarantor are received.

In a letter from the Land Bank of Taiwan dated October 8, 1964, to United Builders, Ltd., it was indicated that written evidence from the Foreign Exchange and Trade Committee relative to the availability of foreign exchange was necessary and should be obtained by the sponsor. This was again brought to the attention of the sponsor in our letter of February 26, 1965. The sponsor has informed us that an application was submitted to the Ministry of Economic Affairs for Chinese Government approval of the loan. The availability of foreign exchange must be verified.

B. Administrator

The proposed administrator is The Land Bank of Taiwan. The FHA Field Inspection team did not contact the Bank to determine its qualifications to act as administrator for the U.S. investors in this project since the Bank was not proposed to act in this capacity until the team had returned from its trip. General information obtained by our examiners did reveal the Land Bank to be a large, efficient, government-owned banking institution and that its banking business can be divided into three categories, namely, specific loans, general banking business, and savings banking business. The specific loans are aimed at boosting agricultural and fishery production and promoting national housing projects, with main emphasis placed on land and agricultural financing. At the end of December 1963, housing loans handled by the bank under the national housing program with the loaning fund appropriated by the government, had been extended to 43,457 applicants with an accumulative amount up to NT \$514,515,000 (\$12,862,875 US) of which NT \$393,915,000 (\$9,847,875 US) was outstanding. In addition to the loans handled under that program, loans have also been extended by the Bank from its own sources.

The Land Bank of Taiwan was formally inaugurated September 1, 1946. It operates within Regulations and By-laws, pursuant to the Ordinance of the Ministry of Finance dated January 19, 1953. It was capitalized with NT\$40,000,000 (\$1,000,000) provided by the National Treasury. Directors and supervisors are appointed by the Ministry of Finance.

It is our understanding that AID is well-informed regarding the activities and creditability of The Land Bank of Taiwan, and does not question its competency to act as administrator.

The Land Bank of Taiwan will accept primary responsibility for the performance of the administrator functions described below:

1. periodic inspections during construction and will provide reports on these inspections to AID. The purpose of the construction inspections will be to determine that the construction conforms to the plans and specifications approved by AID as a condition to the guaranty contract. Copies of the approved plans and specifications will be made available to the administrator. To carry out inspections, the administrator will make a contract with a competent and reliable individual or firm which has been approved by AID. The inspector's salary or fee will be paid by the administrator and recovered from the closing costs collected by the administrator.
2. Take all steps necessary to close and record the mortgages securing the long-term loan.

3. Certify to AID as to the number of houses that have been completed in accordance with the plans and specifications approved by AID, as certified by the inspector, sold, and on which title has been conveyed to qualified buyers.
4. Service the mortgage loans including collection of monthly payments covering principal, interest, hazard insurance, taxes, AID premium, the maintenance of value reserve, administrator's fee, mortgage guarantor's fee, Government of the Republic of China withholding tax on interest to the investors, management and maintenance expense, and keep proper records of these various payments.
5. Convert monthly payments received for principal, interest, AID fee, and maintenance of value reserve into U.S. dollars. The principal, interest, and AID fee will be paid to the U.S. investors. The AID guaranty fee will be turned over to AID by the U. S. investors. The maintenance of value reserve will be escrowed in a U.S. Bank.
6. Maintain escrow accounts for insurance and taxes and make these payments as they fall due.
7. Hold and handle, for each homeowner, a maintenance of value reserve consisting of payments made for this purpose by the homeowner. This is different from the AID guaranty premium. In order to protect the U.S. Government against unnecessary currency loss, the administrator will convert these funds into U.S. dollars as soon as possible after they are received and maintain the apartment owner's maintenance of value reserve account in dollars in a U.S. bank. To the extent that this reserve is not needed, it will be returned to the apartment owner upon expiration of the mortgage.
8. Keep a record of mortgage delinquencies and enforce the mortgage guaranty of the Taiwan Fire & Marine Insurance Co., Ltd.
9. The administrator has advised the sponsor that it does not intend to charge any fee for the initial servicing at the time of closing. It will only be reimbursed for the inspection fee paid the inspector. Other costs of closing are as follows: Transfer of title, recording of deed, advance premium for hazard insurance, escrow of estimated first year taxes, and a proportionate share of the commitment fee charged by the investors.

The administrator's fee for servicing will be 1 percent per annum of the unpaid balance. This will cover costs of collection, delinquency notices, and other continuing responsibilities of the administrator.

The Taiwan Fire & Marine Insurance Co., Ltd., will process applications from prospective apartment buyers submitted by United Builders, Ltd. Applications will be submitted on the standard form used by The Taiwan Fire & Marine Insurance Co., Ltd. The credit review will include a verification of the applicant's employment and income, as well as an investigation, insofar as possible, of the applicant's present indebtedness and his past record of payment of obligations. The credit review will also include an analysis of the relationship between the borrower's regular monthly income (plus that of other members of his immediate family) and the required mortgage payments. The Sponsor also advises that the Taiwan Fire and Marine Insurance Co., Ltd., has stated that it will not charge for credit investigation.

C. Construction Financing

The sponsor has tentatively arranged for interim construction financing through the Chemical Bank New York Trust Company, London, England, and our files contain a letter of willingness to this effect for a sum of up to \$2,000,000, at an interest rate of 6.5 percent per annum. The commitment is subject to the working out of the terms and conditions of a loan agreement in form and substance satisfactory to the Bank and its counsel and to a review of the interest rate on March 1, 1966. FHA has concluded that this arrangement will be satisfactory. However, the final arrangement for the provision of construction financing should be confirmed before the guaranty contract is executed.

No more than an appropriate number of buildings will be under construction at any one time to assure that sales keep up with construction. Apartments will be sold from plans.

D. Investment Disbursement

The investors will transfer their loan investment to the administrator in amounts not less than that required to provide mortgage financing for the number of apartments that have been completed, sold, and on which title has been conveyed.

Prior to requesting disbursements, the administrator will certify the number of apartments that have been constructed and completed in

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accordance with the plans and specifications approved by AID as shown by the inspector's certificate, attached to the administrator's certificate. The administrator will also certify the number of apartments on which title has been conveyed to the apartment buyer; that all appropriate documents have been recorded in the proper public registry; and that all other requirements of the agreement have been met.

E. Downpayments

Downpayments of 25 percent will be required of the apartment purchaser, at the time of the purchase agreement, and will be held in an escrow account by the administrator during the construction period.

Downpayments in these amounts are compatible with the paying ability of those persons making up the market. Because this type of financing is not generally available in Taipei, Taiwan, these terms will broaden the housing market and carry out the objectives of the investment guaranty program.

F. Breakdown of Sales Prices, Closing Costs, and Monthly Payments

1. Project Total (1,328 apartments)

|                                  |             |
|----------------------------------|-------------|
| Sales Prices                     | \$6,663,400 |
| Downpayments                     | 1,666,514   |
| Mortgage Amounts                 | 4,996,886   |
| Amount of U.S. Guaranty(maximum) | 5,000,000   |

2. Individual Apartments

|                                  | <u>1st Floor</u><br><u>2 BR</u> | <u>1st Floor</u><br><u>3 BR</u> | <u>2nd Floor</u><br><u>2 BR</u> | <u>2nd Floor</u><br><u>3 BR</u> |
|----------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Sales Price                      | \$5,525                         | \$5,593                         | \$5,109                         | \$5,177                         |
| Downpayment (25%)                | 1,382                           | 1,399                           | 1,278                           | 1,295                           |
| Mortgage Amount                  | 4,143                           | 4,194                           | 3,831                           | 3,882                           |
| Number of Apartments<br>per Type | 100                             | 233                             | 99                              | 232                             |
|                                  | <u>3rd Floor</u><br><u>2 BR</u> | <u>3rd Floor</u><br><u>3 BR</u> | <u>4th Floor</u><br><u>2 BR</u> | <u>4th Floor</u><br><u>3 BR</u> |
| Sales Price                      | \$4,831                         | \$4,899                         | \$4,415                         | \$4,483                         |
| Downpayment (25%)                | 1,208                           | 1,225                           | 1,104                           | 1,121                           |
| Mortgage Amount                  | 3,623                           | 3,674                           | 3,311                           | 3,362                           |
| Number of Apartments<br>per Type | 99                              | 232                             | 100                             | 233                             |

3. Approximate Schedule of Typical Closing Charges to Individual Purchasers

|   | <u>1st Floor<br/>2 BR</u> | <u>1st Floor<br/>3 BR</u> | <u>2nd Floor<br/>2 BR</u> | <u>2nd Floor<br/>3 BR</u> |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| Administrator Fee<br>(Inspection Fee only)              | \$ 10.00                  | \$ 10.00                  | \$ 10.00                  | \$ 10.00                  |
| Transfer of Title                                       | 6.00                      | 6.00                      | 6.00                      | 6.00                      |
| Recording of Deed                                       | 24.00                     | 24.00                     | 24.00                     | 24.00                     |
| Estimated Real Estate<br>Taxes (One year in<br>advance) | 33.12                     | 33.60                     | 30.60                     | 31.08                     |
| Hazard Insurance Premium<br>(one year in advance)       | 7.44                      | 7.56                      | 6.84                      | 6.96                      |
| Commitment or Discount<br>Fee                           | <u>39.97</u>              | <u>42.89</u>              | <u>35.34</u>              | <u>38.77</u>              |
| Total Approximate<br>Closing Costs:                     |                           |                           |                           |                           |
| U.S. Dollars  | \$120.53                  | \$124.05                  | \$112.78                  | \$116.81                  |
| N.T. Dollars*   | 4,833.25                  | 4,974.41                  | 4,522.48                  | 4,684.08                  |
|   | <u>3rd Floor<br/>2 BR</u> | <u>3rd Floor<br/>3 BR</u> | <u>4th Floor<br/>2 BR</u> | <u>4th Floor<br/>3 BR</u> |
| Administrator Fee<br>(Inspection Fee only)              | \$ 10.00                  | \$ 10.00                  | \$ 10.00                  | \$ 10.00                  |
| Transfer of Title                                       | 6.00                      | 6.00                      | 6.00                      | 6.00                      |
| Recording of Deed                                       | 24.00                     | 24.00                     | 24.00                     | 24.00                     |
| Estimated Real Estate<br>Taxes (one year in<br>advance) | 29.04                     | 29.40                     | 26.52                     | 26.88                     |
| Hazard Insurance Premium<br>(one year in advance)       | 6.48                      | 6.60                      | 6.00                      | 6.00                      |
| Commitment or Discount<br>Fee                           | <u>35.34</u>              | <u>36.62</u>              | <u>34.98</u>              | <u>34.31</u>              |
| Total Approximate<br>Closing Costs:                     |                           |                           |                           |                           |
| U.S. Dollars  | \$110.86                  | \$112.62                  | \$107.50                  | \$107.19                  |
| N.T. Dollars*   | 4,445.49                  | 4,516.06                  | 4,310.75                  | 4,298.32                  |

The commitment fee of approximately \$49,975 to be paid to the long-term U.S. investors has been prorated among the 1328 apartment buyers. The amount to be paid by the individual apartment buyer at the time of closing is directly related to the amount of his original mortgage.

B

FHA, International Division has been informed by AID that no initial deposit will be required for the maintenance of value reserve fund.

\* An exchange rate of 40.10 N.T. dollars per U.S. dollar has been used for conversions.

4. Monthly Payment (20-year mortgage term)

Composite Interest Rate:

|                                   |             |
|-----------------------------------|-------------|
| Mortgage Interest                 | 5.0%        |
| AID Fee                           | 1.5%        |
| Maintenance of Value Reserve Fund | 1.5%        |
| Administrator Fee                 | 1.0%        |
| Mortgagor Guarantor's Fee         | .5%         |
|                                   | <u>9.5%</u> |

|   | <u>1st Floor</u><br><u>2 BR</u> | <u>1st Floor</u><br><u>3 BR</u> | <u>2nd Floor</u><br><u>2 BR</u> | <u>2nd Floor</u><br><u>3 BR</u> |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Mortgage Amount   | \$4,143                         | \$4,194                         | \$3,831                         | \$3,882                         |
| Monthly Payment Based<br>Composite Interest<br>rate of 9.5%                                 | \$38.62                         | \$39.10                         | \$35.71                         | \$36.19                         |
| Hazard Insurance Premium<br>(\$1.80 annually per<br>\$1,000 of original<br>mortgage amount) | .62                             | .63                             | .57                             | .58                             |
| Estimated Real Estate<br>Taxes (\$6.00 annually<br>per \$1,000 of the selling<br>price)     | 2.76                            | 2.80                            | 2.55                            | 2.59                            |
| Average Management and<br>Maintenance Expense<br>(\$9.00 per annum per<br>apartment)        | .75                             | .75                             | .75                             | .75                             |
| Tax on Interest Earned by<br>Investor<br>(First year monthly<br>payment)                    | 1.71                            | 1.73                            | 1.58                            | 1.60                            |
| Total Monthly Payment<br>first year   | <u>\$44.46</u>                  | <u>\$45.01</u>                  | <u>\$41.16</u>                  | <u>\$41.71</u>                  |

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|   | <u>3rd Floor</u><br><u>2 BR</u> | <u>3rd Floor</u><br><u>3 BR</u> | <u>4th Floor</u><br><u>2 BR</u> | <u>4th Floor</u><br><u>3 BR</u> |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Mortgage Amount   | \$3,623                         | \$3,674                         | \$3,311                         | \$3,362                         |
| Monthly Payment Based<br>on Composite Interest<br>Rate of 9.5%                              | \$33.78                         | \$34.25                         | \$30.87                         | \$31.34                         |
| Hazard Insurance Premium<br>(\$1.80 annually per<br>\$1,000 of original<br>mortgage amount) | .54                             | .55                             | .50                             | .50                             |
| Estimated Real Estate<br>Taxes (\$6.00 annually<br>per \$1,000 of the selling<br>price)     | 2.42                            | 2.45                            | 2.21                            | 2.24                            |
| Average Management and<br>Maintenance Expense<br>(\$9.00 per annum per<br>apartment)        | .75                             | .75                             | .75                             | .75                             |
| Tax on Interest Earned by<br>Investors (<br>(First year monthly<br>payment)                 | 1.50                            | 1.52                            | 1.37                            | 1.39                            |
| Total Monthly Payment<br>first year   | <u>\$38.99</u>                  | <u>\$39.52</u>                  | <u>\$35.70</u>                  | <u>\$36.22</u>                  |

The interest earned by the investors at 5 percent is subject to a tax at the rate of 10 percent per annum. This sum is equivalent to approximately 0.5 percent per annum of the average outstanding mortgage balance each year.

**G. Comments on Financial Charges**

The monthly payments assume, in addition to payment of the principal: Prime interest, 5.0 percent; AID fee, 1.5 percent; maintenance of value reserve, 1.5 percent; administrator's fee, 1.0 percent; mortgage guarantor's fee, 0.5 percent. In addition, the monthly payments include hazard insurance premium at the rate of \$1.80 per thousand per annum of the original mortgage amount; estimated real estate taxes of \$6.00 per thousand per annum of the selling price; estimated management and maintenance expense of \$9.00 per annum per apartment; tax on interest earned by the investors, 10 percent per annum.

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ANNEX II

STATUTORY CHECKLIST

Taiwan: United Builders, Ltd.

Section 221(a):

1. The investment is in connection with a project in a friendly country with the government of which the President has agreed to initiate the guaranty program. Bilateral covering extended risks is in effect.

2. Each project shall be approved by the President. Authority to approve has been delegated to the Regional Assistant Administrator by E.O. 10973, State Delegation No. 104, A.I.D. Delegation No. 39.

Section 221(b):

The investment will be made by investors which are substantially beneficially owned by U.S. citizens. The three investors are so owned, *and the two other U.S. investors*

Section 221(b)(2):

1. The President shall determine that assuring this loan investment for a housing project against loss with appropriate participation by the private investor in the loan risk is important to the furtherance of the purposes of the Investment Guaranties title and in accordance with the foreign and financial policies of the United States. Delegated to Regional Assistant Administrator, as above.

2. Guaranties under this paragraph shall emphasize economic development projects furthering social progress and the development of small independent business enterprises. It is believed this project satisfies these criteria.

3. Total outstanding guaranties shall not exceed \$300,000,000. Outstanding guaranties as of October 15, 1965, totalled \$19,304,000.

Section 221(d):

Suitable arrangements for protecting the interests of the United States Government in connection with the guaranty, including arrangements with respect to the ownership, use, and disposition of the currency, credits, assets, or investment on account of which payment under such guaranty is to be made, and any right, title, claim, or cause of action existing in connection therewith. The U.S. Government succeeds to the rights of the Investor in the event the guaranty is exercised.

Section 222(g):

Possible adverse effect of the dollar investment under such guaranty upon the balance of payments of the United States. According to United Builders, Ltd., the proposed project will involve expenditures of approximately \$1,650,000 in the United States for procurement of such items as steel for reinforcing bars, the external power system, air travel aboard U.S. carriers, and miscellaneous fees and expenses. In addition, about \$800,000 will have been returned to the United States in the form of interest and amortization prior to the date of the take-down of the last of the \$5,000,000 long-term financing. Annual service payments to the United States will total approximately \$500,000 a year.

GUARANTY AUTHORIZATION

Provided from: Investment Guaranty Authority  
Section 221(b)(2), Foreign Assistance Act

Taiwan: United Builders, Ltd.

Pursuant to the authority vested in the Assistant Administrator for the Far East, Agency for International Development by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, and after consultation with the Development Loan Committee, I hereby authorize the issuance of a guaranty, pursuant to Part I, Chapter 2, Title III, Section 221(b)(2) of that Act, of not to exceed Five Million Dollars (\$5,000,000) assuring against loss of any loan investment by Bankers Life Company, Des Moines, Iowa, Equitable Life Insurance Company of Iowa, Des Moines, Iowa, and Union Mutual Life Insurance Company, Portland, Maine (Investors) for the purpose of providing long term financing of a demonstration private housing project in Taipei, Taiwan, such guaranty to be subject to the following terms and conditions:

1. Term of Guaranty. The guaranty shall extend for a period of up to twenty (20) years from the date of each disbursement under the loan.
2. Fee. The Investors shall pay to the United States in dollars a fee of one-twelfth of one and one-half percent per month on the outstanding loan investment.
3. Interest Rate. The interest rate to the Investors shall not exceed five percent per annum. Additionally, the Investors may receive a one-time fee of one percent of the sum loaned.
4. Construction Financing. Written evidence satisfactory to the Agency for International Development shall be submitted of an unqualified agreement by Chemical Bank New York Trust Company, London, England, to provide necessary construction financing.
5. Final Working Drawings. Final working drawings shall be submitted as deemed necessary by Federal Housing Administration and subject to Agency for International Development approval.
6. Other Terms and Conditions. The guaranty shall be subject to other terms and conditions as Agency for International Development shall deem advisable.

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ANNEX IV

SUMMARY: TAIWAN ECONOMIC SITUATION

The Taiwan economy has grown (GNP at constant prices) at an average rate of about 6 - 7 percent every year during the past decade. Industrial production has been rising by about 12 percent a year and agricultural production by almost 5 percent a year, rates well above the 2.8 percent annual increase in population. With industry expanding at a greater rate than agriculture the former's share of GNP increased from 18.4 percent in 1954 to 29.4 percent in 1964 while the latter's declined from 33.3 percent to 25.5 percent.

In 1964 GNP rose by a record 10.2 percent as a result of favorable weather, large agricultural and industrial production increases and a boom in exports (sugar, bananas, lumber and manufactures, textiles). The expansion in exports resulted in Taiwan's first foreign trade surplus and, notwithstanding declining US/AID and increased payments for transportation and debt service, gold and foreign exchange reserves increased by some \$70 million, bringing total reserves to an all-time high of \$297 million at year's end.

Budget deficits (24 percent of expenditures in budget 1965) are met in large part (53 percent in budget 1965) by transfers from PL 480 and counterpart funds. By type, about one-half of expenditures goes for government salaries. By purpose, in recent years roughly one-half of expenditures goes for defense while about 20 percent finances developmental projects with heavy concentration on irrigation and hydro-electric projects and on the construction of roads and bridges. Significantly, from the standpoint of the proposed housing project now under consideration, only small sums have been devoted to housing, urban development, drinking water and sewerage systems.

Money supply has more than doubled since 1960, however, with expanding GNP the increase as a percentage of GNP has been only about 50 percent, approximately 26.7 percent in 1960 compared to 40.4 percent in 1964. This upward trend reflected in large part marked increases in gold and foreign exchange reserves and an expansion of credit to the private sector. Rising reserves which have permitted expanding imports, particularly of consumer goods, and increasing domestic output plus an increasing willingness on the part of the local populace to expand time and savings deposits have resulted in relative price stability in recent years. Prices, as measured by the cost of living index, rose by some 7.6 percent in 1961, but increased by only 2.8 percent in 1962 and 2.1 percent in 1963, and remained steady at the 1963 level in 1964. Foreign exchange rates in turn have reflected this stability, the official selling rate for the U. S. dollar rising but twice since 1960, 0.45 percent in 1961 to NT \$40.03 and 0.17 percent in 1963 to NT \$40.10.

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ANNEX IV

As to the future, the economy is expected to show continued growth but at a slower rate than was achieved in 1964. In a 1964 study of the Taiwan economy the IBRD foresaw favorable trends for both industrial and agricultural production and exports and concluded that a 6 percent growth rate in real GNP was possible. The IBRD warned, however, that with declining U.S. aid a significant increase in the national savings rate would be required to finance this expansion without inflation.

So far this year, production (industry and agriculture) has shown a favorable trend; industrial production for the first five months registering an almost 20 percent increase over the corresponding period of 1964. Although imports have exceeded exports, reserves have been rising and reached \$317 million on June 30, 1965, against \$297 million at the end of 1964. The money supply has increased only slightly over year end figures and the cost of living price index dropped one point during the first six months of 1965. The official foreign exchange selling rate remained unchanged at NT \$40.10.

Continuing progress in Taiwan has in fact been such that on June 29, 1965, Administrator Bell announced the completion of U.S. economic assistance programs for that country. In making this announcement the Administrator noted that "there is today sufficient economic strength and momentum, sufficient competence in and out of government to permit Taiwan to make continuing further economic and social progress without further aid grants and soft-term loans from the United States."

Dollar debt service on the proposed mortgage investment of \$5 million for which a U. S. extended risk guaranty is sought will reach a maximum annual charge of \$500,000 by about 1968. Total Taiwan debt service on all foreign obligations in that year, based on current commitments will amount to \$12.8 million. With exports estimated at \$585 million (assuming 5 percent annual growth) in 1968, the additional debt service arising from this loan appears well within the debt servicing capacity of Taiwan, total debt service amounting to but 2.3 percent of exports in 1968. In addition the contingency reserve, an annual charge of 1.5 percent, appears to offer a reasonable reserve against future inflationary trends, given the current stability in Taiwan prices and absence of any signs to the contrary that this trend will not continue.

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3. Approximate Schedule of Typical Closing Charges to Individual Purchasers

|   | <u>1st Floor<br/>2 Bedroom</u> | <u>1st Floor<br/>3 Bedroom</u> | <u>2nd Floor<br/>2 Bedroom</u> | <u>2nd Floor<br/>3 Bedroom</u> |
|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Administrator Fee<br>(Inspection Fee only)              | \$ 10.00                       | \$ 10.00                       | \$ 10.00                       | \$ 10.00                       |
| Transfer of Title                                       | 6.00                           | 6.00                           | 6.00                           | 6.00                           |
| Recording of Deed                                       | 24.00                          | 24.00                          | 24.00                          | 24.00                          |
| Estimated Real Estate<br>Taxes (One year in<br>advance) | 33.12                          | 33.60                          | 30.60                          | 31.08                          |
| Hazard Insurance Premium<br>(one year in advance)       | 28.20                          | 28.56                          | 26.04                          | 26.40                          |
| Commitment or Discount<br>Fee                           | <u>39.97</u>                   | <u>42.89</u>                   | <u>35.34</u>                   | <u>38.77</u>                   |
| Total Approximate<br>Closing Costs:                     |                                |                                |                                |                                |
| U.S. Dollars  | \$141.29                       | \$145.05                       | \$131.98                       | \$136.25                       |
| N.T. Dollars  | 5,665.73                       | 5,816.51                       | 5,292.40                       | 5,463.63                       |

|   | <u>3rd Floor<br/>2 Bedroom</u> | <u>3rd Floor<br/>3 Bedroom</u> | <u>4th Floor<br/>2 Bedroom</u> | <u>4th Floor<br/>3 Bedroom</u> |
|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Administrator Fee<br>(Inspection Fee only)              | \$ 10.00                       | \$ 10.00                       | \$ 10.00                       | \$ 10.00                       |
| Transfer of Title                                       | 6.00                           | 6.00                           | 6.00                           | 6.00                           |
| Recording of Deed                                       | 24.00                          | 24.00                          | 24.00                          | 24.00                          |
| Estimated Real Estate<br>Taxes (one year in<br>advance) | 29.04                          | 29.40                          | 26.52                          | 26.88                          |
| Hazard Insurance Premium<br>(one year in advance)       | 24.60                          | 24.96                          | 22.56                          | 22.92                          |
| Commitment or Discount<br>Fee                           | <u>35.34</u>                   | <u>36.62</u>                   | <u>34.98</u>                   | <u>34.31</u>                   |
| Total Approximate<br>Closing Costs:                     |                                |                                |                                |                                |
| U.S. Dollars  | \$128.98                       | \$130.98                       | \$124.06                       | \$124.11                       |
| N.T. Dollars  | 5,172.10                       | 5,252.30                       | 4,974.81                       | 4,976.81                       |

The commitment fee of approximately \$49,975 to be paid to the long-term U.S. investors has been prorated among the 1328 apartment buyers. The amount to be paid by the individual apartment buyer at the time of closing is directly related to the amount of his original mortgage.

FHA, International Division has been informed by AID that no initial deposit will be required for the maintenance of value reserve fund.

\* An exchange rate of 40.10 N.T. dollars per U.S. dollar has been used for conversions.

4. Monthly Payment (20-year mortgage term)

Composite Interest Rate:

|                                    |             |
|------------------------------------|-------------|
| Mortgage Interest                  | 5.0%        |
| AID Fee                            | 1.5%        |
| Maintenance of Value Reserve Fund  | 1.5%        |
| Tax on Interest Earned by Investor | .5%         |
| Mortgagor Guarantor's Fee          | .5%         |
|                                    | <u>9.0%</u> |

|   | <u>1st Floor<br/>2 Bedroom</u> | <u>1st Floor<br/>3 Bedroom</u> | <u>2nd Floor<br/>2 Bedroom</u> | <u>2nd Floor<br/>3 Bedroom</u> |
|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Mortgage Amount   | \$4,143                        | \$4,194                        | \$3,831                        | \$3,832                        |
| Monthly Payment Based<br>on Composite Interest<br>Rate of 9.0%                              | 37.28                          | 37.74                          | 34.47                          | 34.93                          |
| Hazard Insurance Premium<br>(\$6.00 annually per<br>\$1,000 of original<br>mortgage amount) | 2.35                           | 2.38                           | 2.17                           | 2.20                           |
| Estimated Real Estate Taxes<br>(\$6.00 annually per<br>\$1,000 of the selling<br>price)     | 2.76                           | 2.80                           | 2.55                           | 2.59                           |
| Average Management and<br>Maintenance Expense<br>(\$9.00 per annum per<br>apartment)        | .75                            | .75                            | .75                            | .75                            |
| Administrator's Fee   | <u>2.22</u>                    | <u>2.25</u>                    | <u>2.06</u>                    | <u>2.08</u>                    |
| Total Monthly Payment<br>first year   | \$45.36                        | \$45.92                        | \$42.00                        | \$42.55                        |

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|   | <u>3rd Floor</u><br><u>2 Bedroom</u> | <u>3rd Floor</u><br><u>3 Bedroom</u> | <u>4th Floor</u><br><u>2 Bedroom</u> | <u>4th Floor</u><br><u>3 Bedroom</u> |
|---|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| Mortgage Amount   | \$3,623                              | \$ 3,674                             | \$ 3,311                             | \$ 3,362                             |
| Monthly Payment Based<br>on Composite Interest<br>Rate of 9.0%                              | 32.60                                | 33.06                                | 29.79                                | 30.25                                |
| Hazard Insurance Premium<br>(\$6.80 annually per<br>\$1,000 of original<br>mortgage amount) | 2.05                                 | 2.08                                 | 1.88                                 | 1.91                                 |
| Estimated Real Estate Taxes<br>(\$6.00 annually per<br>\$1,000 of the selling<br>price)     | 2.42                                 | 2.45                                 | 2.21                                 | 2.24                                 |
| Average Management and<br>Maintenance Expense<br>(\$9.00 per annum per<br>apartment)        | .75                                  | .75                                  | .75                                  | .75                                  |
| Administrator's Fee   | <u>1.94</u>                          | <u>1.97</u>                          | <u>1.78</u>                          | <u>1.80</u>                          |
| Total Monthly Payment<br>First Year   | \$ 39.76                             | \$ 40.31                             | \$ 36.41                             | \$ 36.95                             |

G. Comments on Financial Charges

The monthly payments assume, in addition to payment of the principal: Prime interest, 5.0 percent; AID fee, 1.5 percent; maintenance of value reserve, 1.5 percent; tax on interest earned by investor, 0.5 percent; mortgage guarantor's fee, 0.5 percent. In addition, the monthly payments include hazard insurance premium at the rate of \$6.80 per thousand per annum of the original mortgage amount; estimated real estate taxes of \$6.00 per thousand per annum of the selling price; estimated management and maintenance expense of \$9.00 per annum per apartment; administrator's fee, level monthly payment of 1 percent of 1/240th of the sum of the monthly declining mortgage balances for the 240 payments. This level monthly payment is equivalent to 5.96 percent of the 9 percent monthly payment.

The interest earned by the investors at 5 percent is subject to a tax at the rate of 10 percent per annum. This sum is equivalent to approximately 0.5 percent per annum of the monthly declining mortgage balance. This tax, to be paid for by the apartment purchaser, has been included in the composite interest rate of 9 percent.