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**PROCEDURAL
CONSTRUCTION LENDING GUIDE**
February, 1993 -- English Version

by

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HOUSING FINANCE PROJECT

THE PROCEDURAL CONSTRUCTION LENDING GUIDE

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TERMS

Throughout this Guide, the terms defined below will be used:

Bank - a legally authorized bank seeking approval to participate in these housing programs.

Beneficiary - recipient of the funds of the mortgage loan or construction loan.

Bud Bank, S.A. - (Bud Bank) - The lender which administers the Mortgage fund. Bud Bank undertakes all legal activity on behalf of the Fund.

Cession - A clause assigning the rights to the proceeds of an insurance policy to the PB acknowledged by the insurance company.

Collateral - a title to property. PB will have a first lien position in property financed with construction sub-loan proceeds.

Community Association Project - (Community Association) - Cooperative, condominium, and other forms of community housing.

Construction Financing Agreement - Any agreement entered into by Bud Bank and a PB for the purpose of refinancing construction sub-loans.

Construction Loan Rate Index - The base interest rate (refinance rate or its successors) of the National Bank of Poland.

Construction Sub-loan - (Construction Loan) - A loan made or proposed to be made by a PB to a developer and/or a household for a Construction Sub-project.

Construction Sub-project - (Project) - means a specific project to be carried out by a developer or a household utilizing the proceeds of a Construction Sub-loan.

Forward Commitment - The Mortgage Fund will issue a forward commitment for permanent, long-term financing for housing units for which the Mortgage Fund has previously issued a refinance of a construction loan.

Guaranteed Weksel in Blanko - Weksel in Blanko signed in addition to issuer by the third person who guarantees payment under the Weksel entitling person or entity indicated in Weksel to vindicate a claim through simplified civil procedure against issuer and/or guarantor.

Guides -

(The Procedural Construction Lending Guide) - Program requirements for construction credits.

(The Procedural Mortgage Lending Guide) - Program requirements for mortgage credits.

Housing Finance Project Office - (HFPO) - an office under the authority of the Republic of Poland to coordinate and supervise the implementation of the Project.

Infrastructure - Includes water, sewer, central heating, gas, electric, telephone and other utility system connections. May also include roads or any other specific local government requirements.

Margin - The difference between the interest rate charged the beneficiary and the base interest rate of the National Bank of Poland, to be at least 3 percent.

Ministry of Spatial Economy and Construction - (MOSEC) - or any successor thereof.

Mortgage - A legal interest in a property. The PB will have a first lien position in the properties financed with construction loan proceeds. When registered, this document creates the right to take property upon default of the construction sub-loan contract.

Mortgage Fund - (Fund) - means the fund to be established within Bud Bank for the purpose of providing a stable source of long term funds for housing investments.

Multi-family Projects - Flats, apartment buildings and complexes or estates of single family units.

Official Government Statistics Wage Index, or its successor. - Wage Change Index in Six Branches of Economy - (The National Wage Index) - an index set by the Chairman of the Central Statistical Office and currently in use to determine the amount of change in the beneficiary's repayment of a mortgage loan.

Participating Bank - (PB) - Any bank which the Bud Bank has approved to participate in Bud Bank programs, i.e. the Construction Financing Agreement and Mortgage Financing Agreement;

Perpetual Ground Lease - ("Perpetual Usufruct") - the right to use and exploit the land owned by the State Treasury or local community (Gmina)

to the exclusion of other persons and to transfer such right to other parties. Generally, Ground Lease is established for 99 years; in exceptional cases it may be established for a shorter period not less than 40 years. Perpetual usufructuary becomes the owner of buildings erected by him on land leased from the State Treasury or local community.

Renovation Projects - Expansion, addition, modernization and repair of housing units. A project can not be less than 25% of current appraised value, or higher.

Single-family Units - Borrowers building or completing private homes to serve as permanent (primary) residences.

Subintabulat - The instrument to be used to secure the Bud Bank's interest in the mortgage collateralize by the PB. Mortgage established over a claim secured by a mortgage. Repayment of such claim may be made only to the creditor who is the beneficiary of the subintabulat.

Subordination - A clause or document that permits a mortgage recorded at a later date to take priority over an existing or previous mortgage. Subordination concerns Bud Bank's first lien position on mortgage established by the PB.

Sub-loan - means collectively, construction Sub-loans and Mortgage Sub-loans.

Weksel - A promissory note entitling a person or entity indicated in Weksel to vindicate a claim through simplified court enforcement procedure. Weksel has to include the following elements: 1) the word "weksel" in the text of the document, 2) unconditional promise to pay a specified amount of money, 3) determined time and place of payment, 4) name of the person to whom or upon whose order payment is to be made, 5) an indication of the date and place of issuance, and 6) the signature of the issuer.

Weksel in Blanko - Weksel signed by the issuer which does not specify an amount promised to be paid and time of payment.

Zioty - In the currency of the borrower/developer.

1 PARTICIPATING BANK APPROVAL AND ELIGIBILITY

This section describes the procedure for becoming an approved PB under the Program explains the terms of the contractual relationship, discusses the on-going obligations a PB must meet to continue to be eligible for this Program, and defines a PB's general business obligations.

This Section consists of four parts:

1. **PB Approval** -- discusses the eligibility criteria and the material that should be submitted as part of a PB's application package.
2. **Contractual Relationship** -- discusses the terms of the Agreement: a PB's basic duties and responsibilities: the spread a PB must build into the construction loan rate in order to compensate the PB for its servicing activities: the imposition of penalty fees, and the formal sanctions may be used if a PB's performance is unsatisfactory.
3. **Maintaining Eligibility** -- discusses the requirements that must be met for a PB to maintain its eligibility and the business obligations that a PB must consider in the overall conduct of its construction loan operations. It also includes requirements for complying with applicable laws and government regulations, for avoiding conflicts of interest, and for establishing a quality control system.
4. **Loan Files and Records** -- discusses the ownership and custody of loan files and records, including the PB's responsibility for establishing and maintaining individual loan files and for maintaining accurate accounting and payment records.

1.1 **PB Approval**

Banks who wish to participate in the Program must be approved by the Bud Bank. Approval is based upon the bank's financial condition, its ability to originate and service construction loans funded under this Program, and other relevant factors pertaining to a bank's ability to do business under the Program. Once approved, the Bank, hereafter referred to as the Participating Bank (PB), is ready to enter into an Agreement which sets forth the contractual relationship between it and the Bud Bank. This agreement also sets forth the terms and conditions of the loan used by the PB to refund it for the construction sub-loans originated and serviced according to the requirements of the Program.

1.2 **Eligibility Criteria:**

To become a PB, the Bank must:

- * not have more than a 10% ownership interest in the Bud Bank;
- * have or show evidence of a business Plan demonstrating commitment to originating and servicing Construction sub-loans;
- * demonstrate the ability to originate and service the types of loans eligible under this Program. This can be demonstrated in a variety of ways, such as, but not limited to, a proven record of experience, experience of critical staff members, or acceptable participation in Bud Bank training classes;
- * authorized by the National Bank of Poland;
- * comply with all eligible banking requirements;
- * have an acceptable financial capability;
- * maintain quality control and management systems to evaluate and monitor the overall quality of the loan origination and servicing activities;
- * submit an independent certified audit for the most recent fiscal year to the Bud Bank;
- * have demonstrated an ability to establish a separate account for each loan utilizing Bud Bank funds; and
- * have its normal and usual procedures to be used under this Program approved by the Bud Bank.

1.3 Application Procedures:

Banks interested in obtaining approval and becoming PBs to originate and service construction loans should contact the Bud Bank. The Bud Bank will send:

- * An Application for PB Approval;
- * An Authorization for Verification of Financial and Business Information; and
- * A draft Financing Agreement and relevant Bud Bank policies, and procedures.

A bank will be pre-approved based upon the application review. A bank will not become a PB until it has entered into the Construction Financing Agreement. However, if, upon the submission of application the PB expresses a wish to enter into the Agreement (having considered the loan terms), the Bud Bank shall forward two originals of the Agreement and eliminate pre-approval.

1.4 Review Fee:

Real costs of the Bud bank incurred for the review of PBs are charged to the PBs'

account.

1.5 Application Package:

The Bank must complete the appropriate application forms in detail and have an authorized officer to represent the bank. The Bank must include the following information with its application:

1. A narrative describing the general scope and history of the bank's operations;
2. A statement of the applicant's legal authority to originate and service construction loans;
3. A list of principal officers' names, titles, and areas of responsibility;
4. A list of ownership interests, identifying holders of 10% or more interest in the applicant;
5. The Authorization for Verification of Financial and Business Information by an authorized representative;
6. Information on the bank's portfolio; the sources used to originate loans; composition of its portfolio and current principal balance of the portfolio. Also provide a short description of the procedures for originating and servicing loans.
7. Year-end financial statements for the most recent year and for the previous year, certified by an independent public accountant;
8. Copies of the most recent annual reports submitted to the NBP;
9. A letter signed by an authorized officer of the Bank accepting contractual terms contained in the draft agreement. If the Bank is ready to enter into a final agreement the Bank should send the two original agreements executed by the authorized officer.
10. A description of the Bank's quality control and management systems for construction loan origination and servicing activities;
11. A sample loan file originated and serviced by the bank;
12. PB's consent to cover loan application review costs;

In all correspondence between the PB and the Bud Bank, the identification number assigned to the bank by the National Bank of Poland shall be used.

2 CONTRACTUAL RELATIONSHIP

A Bank becomes a PB upon the execution by both parties of the Construction Financing Agreement which establishes the terms and conditions of the contractual relationship. The continuation of that relationship depends on both parties honoring the mutual obligations contained in this and future Financing Agreements and on the PB satisfying

the requirements contained in the Guide.

2.1 Construction Financing Agreement Contractual Relationship Provisions:

The Financing Agreement contains detailed provisions regarding the contractual relationship between the Bud Bank and the PB. These provisions:

- * establish the lender as an approved PB;
- * provide the terms and conditions of the financing agreement from the Bud Bank to the PB secured by eligible construction sub-loans;
- * establish the lender as an approved servicer of loans accepted as security for the financing agreement provided to the PB;
- * provide the terms and conditions for servicing; and
- * incorporate by reference the terms of the Guide.

The Guide specifically states the types of construction sub-loans that are eligible under Program. All construction sub-loans collateralized are security under the Program must:

- * have a loan-to-estimated project value ratio of 75 percent or less;
- * have a margin or spread of at least 3 percentage points above the index rate.
- * be for construction commenced after January 1, 1992;
- * be to a borrower who meets all credit criteria established by the PB and the Bud Bank for these loans;
- * be for detached single family units of 150 square meters of usable area and apartments of 100 square meters usable floor area;
- * take the NBP refinance interest rate into account; and also take into account a margin of at least three percentage points above the base refinance rate

2.2 Warranties:

The Agreement and Guides list specific warranties a lender PB makes to the Bud Bank. These contractual warranties are not limited to matters of which the lender had knowledge upon the execution of the Agreement. The PB warrants that the loans meet all applicable requirements in the Guide and the Agreement.

The PB may be required to make other warranties (which are described in the following Section 2.3) before it collateralizes certain types of construction loans. All warranties apply upon the execution of Financing Agreement and the Construction Financing Agreement with Bud Bank and continues until these loans from the Bud Bank are completely paid back.

The PB's breach of a specific warranty entitles the Bud Bank to the applicable rights and remedies for that breach--irrespective of the provisions and conditions of any other warranty and **regardless of whether or not the facts or circumstances giving rise to the breach would also give rise to a breach of any other warranty.** These rights and remedies may be exercised separately for each breach of a specific warranty, concurrently, or successively.

The PB must indemnify and hold the Bud Bank and (its successors and assigns) harmless against all losses, damages, judgments, and legal fees based on (or resulting from) a breach of its warranties or representations. If a warranty made by the PB is untrue, the PB may be required to pay back the related Financing Agreement for which the construction sub-loan is collateral. The Bud Bank may also enforce any other applicable rights and remedies including, but not limited to, requiring the PB to substitute an eligible construction sub-loan for the defective collateral.

2.3 Additional Warranties:

Upon the execution of every Sub-Loan Agreement the PB must make the following warranties which are in addition to those provided in the Financing Agreement:

- The PB has the staff and facilities to service the collateralizing sub-loan in accordance with Bud Bank requirements.
- * When a construction loan is used to construct units in a community association form of housing, the PB warrants that the project meets any requirements for such housing contained in the Guide, unless such requirement has been waived by the Bud Bank for the specific project.

- * When the PB collateralizes a construction sub-loan secured by a perpetual ground lease, it warrants:
 - the lease is valid, in good standing, and conforms to all Guide requirements for ground leases;
 - all rents and other payments that have become due under the lease have been paid properly; and
 - the beneficiary is not in default under any provision of the lease; and
 - the lease does not provide for its forfeiture or termination for any reason except the non-payment of lease rents after completion of construction.

The subintabulat will be registered prior to the refunding. Bud Bank reserves the right to require repayment of the agreement in proportion to the balance of any construction sub-loan financing not registered within 30 days of the closing of the PB loan to the beneficiary.

2.4 Special PB Obligations:

It is the intent of Bud Bank and the PB that acceptable construction sub-loans will serve as collateral for loan funds advanced from the Bud Bank to the PB. Although the construction sub-loans remain the property of the PB, it is the express intent of both parties, that the request by the PB that the Bud Bank accept the subintabulat as collateral be interpreted as a collateralization by the PB to Bud Bank of all related construction sub-loans to secure a debt or other obligation of the PB. The PB is responsible for any deficiencies not covered by the aforementioned collateral.

2.5 Assignment of Servicing:

If the PB uses another bank to perform some of its servicing functions, it is still accountable for any actions taken (or not taken when required) by these servicing agents. After a Construction Sub-Project Loan Agreement has been signed with the Bud Bank, all subsequent assignments of servicing related to that loan must be approved by the Bud Bank.

2.6 PBs' Basic Duties and Responsibilities:

PBs perform their origination and servicing functions under the Agreement as an independent contractor, not as a representative of Bud Bank. PBs are obligated to use sound business judgment in all aspects of their operations to ensure that they have adequate staff and facilities to originate and service quality construction

sub-loans; to protect against misrepresentations, or negligence by any parties involved in the construction sub-loan origination process; and to provide borrowers with assistance when it is requested.

PB's are responsible for underwriting decisions on construction sub-loans collateralized for a Bud Bank loan. They are responsible for ensuring that construction sub-loans under the Bud Bank's programs meet the eligibility requirements. Collateralized construction sub-loans must conform to the requirements contained throughout this Guide. To assure that its staff is knowledgeable in all aspects of construction loan origination and servicing, the PB must have fully documented written procedures and implement measures -- such as periodic reviews of construction loan origination procedures -- to determine that those procedures are being adhered to properly.

2.7 Changes in PB's Organization:

The PB must send the Bud Bank written notice at least 30 days prior to any contemplated major changes in its articles of association.

The PB must provide official notice within 10 business days of these major changes:

- * capital or organization and staff;
- * the resignation or termination of any senior management personnel;
- * any mergers, consolidations, or reorganizations;
- * any substantial (greater than 10%) changes in ownership;
- * any change in corporate name or address; or
- * any material and adverse change in the PB's financial position.

The PB must include with its notice copies of any filings with the NBP under the Banking Law requirements.

2.8 Imposition of Penalty Fees

If the PB is not satisfactorily fulfilling these eligibility requirements or, failing to comply with the Agreement and Guide, a variety of remedies can be pursued either to correct a specific problem or to improve the PB's overall performance, in lieu of exercising the right to terminate the Agreement. Possible remedies include requiring the PB to indemnify the Bud Bank for a loss, imposing a formal sanction against the PB, or imposing a fee.

The PB may be charged a fee or imposed on it other remedies for such failures as

late submission of annual financial statements. Annual financial statements prepared in accordance with effective regulations, certified by an independently auditing firm, must be submitted to Bud Bank by May 31, but no later than 14 days after the statutory time limit. Independent audit firm must audit books, records, and individual sub-loan accounts in accordance with generally accepted audit standards.

2.9 Loan Payoff or Loan Substitution Requirements:

The PB may be required to repay the Agreement before due date in the event of:

- * breach of any warranty, under the terms of the Agreement or Guide provisions. or;
- * because of servicing deficiencies that have had a materially adverse effect on the property's value.

When repayment is required, the PB must pay the Bud Bank the funds that are due within 10 days of this demand. If the PB believes that this demand is not justified, the PB must provide the Bud Bank with a written explanation for its position within 10 days after demand for repayment is made. Bud Bank shall notify the PB of its decision within 10 days from the date of receipt of PB's written explanation of position. However, if the Bud Bank subsequently has to take legal action to enforce this repayment right, the PB will be liable for legal costs and related expenses.

If, in result of Bud Bank's action the PB withdraws from servicing a sub-project, the Bud Bank shall indicate a substitute bank. Until that time the PB shall service the sub-loan.

2.10 Warranty Violations:

If a construction sub-loan does not meet the Guide's standards the PB will be required to either correct the violation, repay the portion of the Bud Bank Financing Agreement to the PB collateralized by the relevant construction sub-loan, or substitute a other construction sub-loan. The fact that a construction sub-loan has passed this quality control review or any other review, however, does not in any way limit the right to require repayment if a warranty breach is discovered later.

2.11 Imposition of Sanctions:

The Agreement establishes the basic legal relationship between a PB and the Bud Bank. This relationship and the mutual responsibilities it includes are predicated

on sound and ethical practices by both parties. If any act, omission, or failure of performance by the PB constitutes a breach of the Agreement, the Agreement and this relationship may be terminated for cause or other sanctions may be imposed. Generally, before such actions are taken, the PB will be given notice and have an opportunity to submit a written response explaining any mitigating circumstances or specific proposal to satisfy performance problems.

2.11.1 Suspension:

A PB may be suspended from future participation in any Bud Bank agreement. The PB will be given specific actions that must be taken before the suspension can be lifted.

2.11.2 Termination for Cause:

The PB may be terminated for cause if the required improvement in its performance is not achieved during the period in which its participation is suspended. The PB may also be terminated without suspension. Reasons for termination include, but are not limited to, failure to follow the requirements of the Guide, to meet financial requirements, or to meet any of the other eligibility requirements specified in the Agreement and Guide.

3 MAINTAINING ELIGIBILITY

This section concentrates on the PB's specific administrative responsibilities and business obligations that must be covered in the overall conduct of its lending operations.

3.1 Internal Audit and Quality Control Systems:

The PB must maintain adequate internal audit and management control systems to:

- * assure that the construction sub-loans are originated and serviced in accordance with sound banking and accounting principles;
- * guard against dishonest, fraudulent, or negligent acts; and
- * guard against errors and omissions by its officers, employees, or other authorized persons.

Every bank requesting approval must have a quality control system in place that verifies the existence and accuracy of legal documents, credit documentation, property appraisals, and underwriting decisions. The system should assure that construction sub-loans conform to Bud Bank policy and procedures and be capable of evaluating and monitoring the overall quality of construction sub-loan production.

3.2 Financial Statements and Reports:

The PB must be financially capable of fulfilling its obligations under its financing agreement from the Bud Bank. The PB must submit annual financial statements prepared in accordance with effective regulations, certified by an independent auditing firm. They must be submitted to Bud Bank by May 31, but no later than 14 days after the statutory time limit. Independent audit firm must audit books, records, and individual sub-loan accounts in accordance with generally accepted audit standards. A penalty fee for a late statement may also be imposed. Some PB's may also be requested to submit special reports related to financial information about their operations. A PB's privileges may be suspended if these reports are not submitted within the time frame required.

The financial statements must include:

- * a balance sheet;
- * an income statement;
- * a statement of retained earnings;
- * a statement of additional paid-in capital;
- * most recent annual National Bank of Poland reports;
- * a statement of changes in financial position with all related explanatory

notes.

latest audit reports

Should a bank fail to comply with reporting requirements it may be suspended in its rights as a PB.

3.3 Interest Rate and Payment Changes:

The PB must certify that it has made all of the required interest rate and/or monthly payment adjustments and that all adjustments were made in accordance with the construction sub-loan terms.

3.4 Compliance with Applicable Laws:

The PB is responsible for all documents to comply with relevant regulations which apply to all of its business practice. The PB must also ensure that properties securing collateralized loans comply with zoning regulations that are included in the area development plans.

4 LOAN FILES AND RECORDS

The PB is responsible for establishing and maintaining individual construction sub-loan files and for maintaining accurate accounting and borrower payment records. The Bud Bank has the right to examine at any reasonable time within regular working hours any and all records that pertain to the collateral and all accounting reports associated with those construction sub-loans and borrower remittances, and any other reports and documentation that are considered to be necessary to assure that the PB is in compliance with Bud Bank requirements. Each construction sub-loan must be clearly identified.

4.1 Ownership of Loan Files and Records

All loan papers and documents, that are reasonably required to originate and subsequently service a construction sub-loan properly will be the property of the PB. In the event of default under the provisions of this Guide, Agreement(s) or any other contractual agreements between the PB and the Bud Bank, the Bud Bank will have the right to retrieve these documents and records.

4.2 Access to Records:

In case of default, the PB must deliver all construction sub-loan records and documents to the Bud Bank or its designee, otherwise, if requested in writing the PB must deliver copies of all construction sub-loan records and documents. Each construction sub-loan should have its own number and be clearly identified. If the PB has microfilmed or condensed any of the records, it must reproduce them at its own expense. If the PB fails to provide the records or give a reasonable explanation or any evidence showing that the requirement was satisfied, the Bud Bank can take any action that is authorized under the Agreement or the Guide for the PB's breach of Bud Bank requirements.

4.3 Types of Records:

Loan files and records include the individual construction sub-loan files, permanent construction sub-loan account records, and accounting system reports. The PB must establish an individual loan file when it originates a construction sub-loan. The accounts and records relating to collateralized construction sub-loans must be maintained in accordance with sound and generally accepted accounting principles and in such a manner as will permit Bud Bank examination and auditing at any time.

The PB must also retain records showing the flow of funds from the construction sub-loans to the Bud Bank and make these records available when requested. Specifically, Bud Bank's examination and audit will consist of:

- * monitoring all monthly accounting reports;
- * review of procedures applied by the loan servicing branch or in the office of the Custodian of Documents by Branch Internal Audit staff;
- * conducting, from time to time, in-depth audits of the financial records and procedures -- including, but not limited to, the examination of financial records and underwriting standards; and
- * performing spot-check reviews of construction sub-loans on a random sample basis.

4.4 Individual Sub-Loan Files:

The PB must establish an individual file for each collateralized construction sub-loan. Among other things, the file must include:

- * A checklist of all documents contained in the file;
- * Originals of the Beneficiary's sub-loan agreement, Financing Agreement and documents related to loan security (i.e., extract of the Book of Land and Mortgages and subintabulat;
- * Copies of the pertinent underwriting documents.

4.5 Loan Payment Records:

The PB servicing the construction sub-loan must also maintain permanent account records for each collateralized sub-loan it services. The PB's accounting system must be able to produce detailed information on:

- * All funding disbursements and any borrower payments that affect the construction sub-loan balance;
- * The current sub-loan balance; and
- * The amount and timing of capitalized interest.

4.6 Underwriting Performance Reviews:

A sample of collateralized construction sub-loans will be reviewed to ensure that they meet all underwriting and eligibility requirements.

4.7 Review Process:

The review will encompass a complete review of the credit, legal, and property documents and possibly reverification of this information. The review should prove that all documentation needed to support the PB's underwriting decision is in each file and demonstrate the borrower's ability to repay the loan, his willingness to repay the loan, and evidence that the property has sufficient value

February 16, 1993

to support the loan.

5 BORROWER-DEVELOPER APPROVAL PROCEDURES

The borrower-developer approval analysis includes a "borrower" analysis and "development" analysis. The objective of the borrower-developer review and approval process is to present a "credit" analysis format and an "experience, or background" analysis format. The credit analysis is to determine the financial experience and capability of the borrower-developers, while the background analysis is to determine the capability to successfully commence and complete a project similar to the one being proposed to the lender.

5.1 Credit analysis

This credit analysis procedure applies to the borrower-developer and any guarantors of the loan to the borrower-developer. Credit analysis is a basic building block to sound project underwriting. The lender must have a thorough and complete understanding of the borrower's and guarantor's financial situation and condition. The lender must review all available documents, references, and have interviews with the applicant(s). Prior to any credit approval, the lender must have a complete grasp of the total financial condition i.e., cash flow, liquidity position, net worth plus all assets and liabilities and their impact if any, on the proposed project. The lender must meet as often as necessary with the applicant to be able to determine the applicant(s) financial management capability.

Exhibit I, Part I, "Information on the Activities", attached, is a suggested credit application form which should be presented to all applicants at the initial visit and should be entirely completed before the second interview. The key factors to focus on for the credit analysis are as follows:

- * Both corporate and personal financial statements. These include balance sheets, income statements, verifications, and sources and uses of funds. Personal income tax returns will be required, also. Income and other tax receipts (certifications) must be supplied supporting the business history and ownership of any real estate assets, including any recent appraisals. Recognizing that many private businesses have only recently been established, the credit and financial history will be sketchy. This means, however, that the lender must meet with and visit the applicant's business location and past projects to verify credit and financial statements.
- * Both corporate and personal bank references. The lender must require bank references and must verify each corporate and personal banking experience with banks. The lender must also check with the "Special Register of Union of Banks" to determine if the borrower-developer or any guarantors have been recorded for adverse credit history. The lender

must receive written verification of cash deposits with other banks.

- Details of any other loans or lines of credit. This information should include:

Purpose (construction loan)

- Amount of credit and origination date
- Outstanding unpaid balance and monthly (quarterly) payment
- Maturity date and any collateral or guarantors securing the credit
- Creditor name, and contact person (account representative)
- Trade references - customers, clients, suppliers, and sub-contractors. The borrower-developer must submit contacts to verify past projects or other work related experience, as well as construction material suppliers and any sub-contractors who have performed work for the borrower-developer. It is especially important for the lender to verify from clients and customers that the applicant successfully and in a timely manner completes projects as promised. Also, with suppliers and sub-contractors, verify that the applicant pays invoices and bills in a timely manner. These checks are important to demonstrate management capability to build-out the project and financial capability to manage cash flow and costs.
- Copies of any agreement relating to joint ventures or other business activities, including any corporate or personal guarantees the applicants have entered into. The lender must review all such documents to determine whether there exist contingent liabilities for the borrower-developer and any guarantors. The lender must make an evaluation of whether, and how likely, any of these contingent liabilities could become direct liabilities. The lender must also request any information on any lawsuits or other legal actions the applicant(s) may be involved with. The lender will be required to visit the appropriate court districts to verify whether any personal or corporate legal actions are in the court(s) process.
- Corporate cash flow projections and pro-formas. This is an extremely important part of the application (Exhibit I, Part 1). This projection will show where the company stands financially at the moment of application and the effect of the proposed project on the corporations future cash and profit position. This projection should be done monthly over the proposed construction loan period. It is necessary for the lender to verify all income and cost items on the projection. The lender should be certain that the cost projections are comparable and in line with construction industry

experience. Also, income projections must be substantiated by signed sales agreements and evidence of deposits by the future home or flat owners. Also, a schedule of payments by the future owners to the borrower-developer must be submitted.

- Know the borrower-developer. The lender representative must be certain that the borrower-developer has the work experience to undertake the proposed construction project and also the financial management capability to control the sources and uses of funds. The lender must thoroughly understand the borrower-developers financial position, both personal and corporate.
- Credit Analysis Factors. The lender performing the credit analysis should pay particularly close attention to the following key factors:
 - o Liquidity - cash, short-term securities, anything that could be readily turned to cash in case of any financial emergency. These assets should not be encumbered in any way.
 - o Cash Flow. There should be sufficient cash flow to meet all obligations of the corporation with adequate excess cash to meet short-term unexpected cash short-falls. The lender must verify cash sources to determine the reliability of the projections. Also, the lender must verify ownership of all assets listed and ascertain whether there are any liens or mortgages encumbering listed assets. Any recent appraisal must be reviewed for reasonableness of value.
 - o Net Worth - which consists of assets less liabilities. Particular emphasis must be placed by the lender to be certain that realistic values have been placed on the corporate and personal assets.
 - o Contingent Liabilities. The lender must be prepared to monitor on an ongoing basis the status of any contingent liabilities (i.e., guarantees, surety, joint venture commitments, legal actions). The lender will require quarterly statements from the applicant(s) on any change in the status of these contingent liabilities. Failure by the borrower-developer to furnish this material on schedule would be cause to temporarily halt funding of the loan.
 - o Equity Contributions - Types of equity the Borrower-

Developer contributes may consist of cash, current appraised land value, land lease fee, pre-payment, pre-funded project expenses, infrastructure expenditure, cash pre-payments and deposits of future buyers. The equity must be invested prior to any construction loan advances.

5.1.1 Community Associations - Additional Information

In addition, the PB must receive documentation showing that the community association is properly incorporated, registered, with a member approved constitution and elected officers. Also, the PB must receive the minutes of the assembly of members/Board of Directors Meeting authorizing the seeking of the construction loan. The PB counsel, or outside counsel, must verify the approved legal status of the community association, and the legality of the founding act and structure of the community association. The community association must be newly formed to specifically construct a residential project.

The PB underwriter must carefully review the proposed operating budget to ascertain that it is consistent with the proposed project and provides for adequate working capital to fund operating expenses and the establishment of a reserve fund for the common area components. The financial statement of the community association must contain adequate funds to service current debt and maintain financial integrity of the association.

The developer's plan must clearly show completion of all common areas prior to occupancy, and the developer must have a reasonable plan for change of control from the developer to the association.

The association must demonstrate a plan for the on-going management of the completed project. The association and the developer must have projected, for 5 years, reasonable association/project expenses. The developer should not have unreasonable fees or charges for project amenities.

The project must not contain more than 15% of the total area in commercial activities, and these activities should supply services to the residents.

5.1.1 Project analysis

The PB will require the following to determine the eligibility of a multifamily project proposed by a community association group or other borrower-developer:

- o A description of the project;

- o An analysis of the projects operating budget including annual income and expenses;
- o The overall development plan, including the information when the project will be completed in phases;
- o A full description of project facilities and amenities;

The Application for a Multifamily Construction Project is attached as Exhibit I. Part 2. Also attached is an application for a single family (one unit) construction project. The maximum size of eligible units is:

- * 150 square meters usable area for single family and
- * 100 square meters of usable area for multifamily units.

As part of the multifamily application, the following must be included:

- Architectural drawings prepared by an authorized architect, clearly showing the nature and type of the proposed construction project. These drawings must show front, side, and rear elevations of multifamily, row houses, including duplex and quadruplex.
- Construction schedule including any construction management contracts and identification of all sub-contractors.
- Market analysis and evidence of at least 60% pre-sales with signed sales agreements and evidence of at least 10% deposit of the estimated final sale price from the purchasers and a schedule of pre-payments (Exhibit I. Part 3).
- Certification of compliance with competitive bidding requirements - or the local shopping offers and reasons for selection (criteria used to select winning bids). (Exhibit I. Part 4).
- Evidence of land ownership or perpetual ground lease. If the land is owned, certification that all taxes on the land have been paid.
- Evidence of existence of infrastructure - roads, water, sewer, and utilities or specific plans and schedule for completion of infrastructure.
- Evidence of required building permits from the local authorities. Such permits will also evidence compliance with local zoning.
- For renovation projects - plan for providing alternate housing for displaced tenants.
- Description of access to community services such as schools, shopping, public transport, and hospitals.
- Construction cost schedule and breakdown (Exhibit I. Part 5).
- Information on environmental requirements, supplied by an environmental appraiser (Exhibit I. Part 6).
- Compliance with code regulations.
- If the application is for renovation, present condition of the

building, in particular of the building's main construction elements (foundations, walls, ceilings, stairs and roof structure). Also condition of insulation and condition of mechanical and electrical systems must be detailed.

- Required attachments -
 - o A map showing the location of housing project to the nearest city/town center.
 - o Site plan showing access roads and infrastructure to the project location.
 - o Land survey description.
 - o Evidence of application for hazard, fire, flood, and vandalism insurance for the project.
 - o Independent appraisal (valuation) completed by an appraiser approved by MOSEC and by the Bud Bank.
 - o Evidence of any technological innovations or special energy saving techniques.
 - o Detailed set of plans and specifications for the project (2 copies).
 - o Application for or construction permits and any other local governmental licenses/approvals.
 - o Application for or excerpts from the Book of Land and Mortgages Registry.
 - o Information on estimated total cost of the project - cost summary

The lender's engineer/architect will perform a site inspection to review all relevant documents with the borrower-developer.

5.1.3. Properties Affected by Environmental Hazards

When the appraiser has knowledge of any hazardous condition, (whether it exists in or on the subject property or on a site within the vicinity of the property), it must be noted on the appraisal report. A comment on any influence that the hazard has on the property's value and marketability with appropriate adjustments in the overall analysis of the property's value must also be made. A construction loan on a property that is affected by an environmental hazard is acceptable if:

1. the impact of the hazard is measurable through an analysis of comparable market data as of the effective date of the appraisal, and
2. the appraiser reflects in the appraisal report any adverse effect that the hazard has on the value and marketability of the subject property, or
3. indicates that the comparable market data reveals no buyer resistance to

the hazard.

To illustrate, properties may be located in neighborhoods affected by radon gas or the presence of hazardous wastes. In such situations, the appraiser should reflect any adverse effect or buyer resistance that is demonstrated and measurable through the available comparable market data.

If the effect of the environmental hazard is not measurable, because the discovery of its existence is so recent, or the hazard is so unique, the property will not be eligible.

5.2 Loan underwriting

All construction loans must receive prior approval of the Bud Bank, and loans over US\$1 million must also be approved by the World Bank. The first three construction sub-loans must be approved by the World Bank.

The loan underwriting will involve three separate stages - economic analysis, document review, and feasibility analysis.

Economic analysis involves a review of the itemized anticipated cost and total cash flow requirements. The underwriter will review a developer-prepared a "spread sheet" allocating all direct and indirect costs according to the construction schedule submitted. The cost estimates submitted must be verified by comparison with other projects of similar structure. All sources of funds, developer equity, purchase payments and loan proceeds must also be allocated on the spread sheet to verify the developers projections. The spread sheet will cover monthly the total time period of the proposed loan. Also, there must be a review of the independent outside appraisal of value of the project.

The loan underwriter must pay special attention to the equity contribution of the borrower-developer. The 25% of total project cost which is equity can consist of cash; current appraised value of owned land; pre-paid perpetual lease fee(s); cash deposits and payments of the future buyers; pre-funded project and infrastructure expenses. The underwriter must verify all these items, but particularly the cash deposits and payments of future buyers. The borrower-developer must produce documentation (invoices, receipts, etc.) showing that all these cash payments have been expended on the project or remain on deposit in a financial institution.

In analyzing the financial projection spreadsheet for the project, the underwriter must ascertain that all funds received from buyers are used for project expenses prior to use of the construction sub-loan proceeds.

The document review will include:

- o Verification of all pre-sales contracts and evidence of deposit.
- o Review of the three competitive bids for construction services and supplies and materials, plus a review of the selection criteria employed by the developer in his/her selection process or of compliance with competitive bidding requirements.
- o Excerpt from the Book of Land and Mortgage Registry.
- o Review of land purchase contract or long-term ground lease. If the property is owned, certification that all taxes are paid must be in evidence. If the land is owned by the developer, the lender-participating bank must be in a first lien position on the land and of course, the buildings to be constructed on the land. If there is a lien already in existence on the land, it must be subordinated to the construction lender's lien.
- o Review building permits to verify site location, development plan, zoning approval, environmental statement, and actual permission to commence building.
- o Review the technical economic criteria (ZTE) for approvals from:
 - local utilities, water, sewer, electric, and telephone.
 - any special approvals required i.e., Ministry of Environmental Protection, Conservation Department or fire department.
 - building technology to be utilized by the developer.
- o Review of technical documentation according to the Housing Finance Project architectural criteria.

The underwriter will prepare a written feasibility analysis where the underwriter evaluates the project, the developer's capability, and all salient aspects of the project financials and current market conditions in sufficient detail to prepare a recommendation to senior management regarding the granting of this particular credit. The underwriter will incorporate in this feasibility analysis the report of the lender's engineer/architect site inspection and review of the technical aspects of the proposed project. The feasibility analysis will specifically address the following:

- o Borrower-developer's credit experience
- o Presence of any guarantors
- o Applicant's resume and experience
- o Review of corporate financials
- o Results of economic analysis - is the project profitable and economically viable?
- o Results of review of all documents, projections, and pro-formas, site inspections and reference verifications.
- o Source of permanent financing or other "takeout commitment" to ensure repayment of construction loan.

- o Review of proposed construction costs - including labor, materials, equipment, management, and cost per square meter for reasonableness.
 - o Developer has at least 25% equity into the project and that the proposed loan - 75% of project-cost - is sufficient to complete the project.
 - o Project can be completed within 24 months of start of construction.
- The underwriter will make a clear and concise recommendation as to the terms and conditions under which the proposed credit would be granted, or if the underwriter believes the loan should not be granted, those conditions which cause him/her to recommend that the loan not be granted.

At this point the loan underwriter will have completed a borrower-developer loan application file which will contain:

- Company history, resumes of principals and corporate and personal financial statements.
- Results of credit and reference investigations.
- Summary of past projects, site inspections, etc.
- All financial documentation relating to the project and the company of the developer.
- Outside appraisal.
- All documents relating to the local authority and utilities approvals.
- Any recommendations regarding the need for additional guarantors.
- Recommendations as to whether the loan interest will be paid currently or capitalized or partially paid. This should include economic impact on the release price per unit of capitalizing any interest.

5.3 Commercial Space Construction

Commercial space for multi-family for owner-occupant services - dry cleaning, food stores - and other convenience outlets may be financed up to 15% of total project construction costs. However, the Bud Bank cannot make available long-term financing for any commercial space. The commercial portion of the construction loan must be repaid by completion of the total project by the following:

- By means of the sales revenues of the multi-family units in the project.
- Buyers of the commercial space repay the full cost of construction at loan maturity or show satisfactory evidence of a bank commitment for a permanent, long-term mortgage loan.

5.4. Single Family Construction

Individuals and families are eligible to borrow construction credits for the purposes of building a new residence, completing construction on a dwelling where construction had not commenced before January 1, 1992, or making substantial repairs - 25% or greater of the current appraised value - to an existing dwelling. The finished dwelling must serve as the principal residence of the borrower(s) and the applicant(s) must show evidence of either a permanent mortgage commitment - takeout -and/ or other sources of funds to repay the construction loan.

The amount of credit extended cannot exceed 75% of the lesser of total construction costs or the outside appraisal value. The outside appraisal must be performed by an appraiser approved by the lender. The lender will make available a pre-approved list of real estate appraisers. The interest rate on construction credits will be the rate established by the lender - PB and is adjusted periodically to reflect changes in the base interest rate charged by the National Bank of Poland. The maximum period of the construction credit is 18 months for a single family construction loan. The single family construction credit application, Exhibit III must be completed and submitted together with the following documentation:

- o Survey description of the land and recorded plat
- o Evidence of land ownership or perpetual ground lease
- o Contractor cost estimate as submitted by contractor or actual contract to erect the house, including project budget
- o Site plan showing location, road access, and presence of all infrastructure to the site of the proposed project.
- o Evidence of application for hazard loss, vandalism and theft insurance.
- o Evidence that there are no prior liens on the subject property, or subordination of any prior mortgages, including certification of tax payment if land is owned, or evidence of perpetual ground lease.
- o Detailed plans and specifications for the actual construction.
- o A projected cash flow showing schedule of disbursements and borrower's equity investment prior to using lender's funds.
- o Building permit from local authority.

These items will enable the participating bank (PB) to underwrite the proposed single family construction project. The borrower credit underwriting requires all of the credit information and documentation previously listed. If the borrower is self-employed or the principal owner of a company, all the information and documentation previously listed for corporate underwriting must be submitted as part of the credit review.

If the borrower (applicant) is salaried, then evidence of stable income from

employer must be submitted. The underwriter of the PB will undertake a full credit review of the borrower prior to a review of the project itself. The project underwriting will be simplified with respect to the underwriting procedure for multifamily credits. However, the PB underwriter must verify the reasonableness of the contractor's bid with respect to all significant cash items - materials and wages-as well as verification of all documents relating to the property as listed above.

With a single family construction credit the PB underwriter does not have to develop the full three step economic document and feasibility analysis required by a multifamily credit. For single family, the underwriter will verify all documents including borrower credit, and with the outside appraisal of value, make a recommendation that the credit should be extended as requested, or with any modification that the underwriter deems appropriate.

6 LOAN APPROVAL AND CLOSING

Any loan over \$1 million US is subject to approval by the World Bank. The first three multifamily construction loans from any PB must be approved by the Bud Bank prior to PB issuing a firm commitment to fund the loan. The PB should fully, and completely underwrite the loan and issue a conditional approval if the credit meets all underwriting criteria. The PB then contacts the Bud Bank to arrange for Bud Bank and World Bank review, if necessary. When approved, the PB can then issue a commitment to the borrower-developer.

The initial (first) single family construction credit must receive prior approval from the Bud Bank. Subsequently, for PBs demonstrating experience and capability in underwriting single family construction credits, the prior approval of the Bud Bank will not be required.

Once all the required approvals of the PB, Bud Bank and/ or World Bank are obtained, the PB can issue the commitment for the construction credit to the applicant(s). The PB's attorney will prepare the loan agreement which will contain the usual statements about the interest on the credit, repayment terms, maturity, draw schedules, documentation requirements and site inspection schedules for draw releases, and loan fees.

The PB should collect an "origination" fee of 1 - 1.2 percent of the total loan amount at the loan closing. These funds should come from the borrower's own sources, and not represent any funding of the loan. No funds or proceeds of the loan will be advanced until the lender has obtained directly, or the borrower has supplied to the lender, evidence of a first lien-mortgage on the land and the building(s) to be erected on the land. Also, the PB must have the borrower sign, in blank, a "Weksel" "corporately" and "personally". If there are any guarantors in addition to the borrower, these guarantors should also be required to sign "corporately" as well as "personally". If the guarantors are pledging specific assets, an outside appraisal of value of these assets must be supplied to the bank. If the guarantors are limiting their pledge to certain assets, this must be clearly defined in the separate agreement with each guarantor. If the particular assets, upon liquidation, do not yield sufficient funds to repay the loan or meet the guarantee level (amount), the PB should reserve the right to require that other assets of the guarantor be utilized to complete and fulfill the guarantee amount.

It is suggested that the loan agreement have provision for capitalizing interest if this is in the best interest of the borrower and the PB. Prepayment fees are not recommended.

The construction loan term should not exceed 24 months, and the project should not have commenced construction prior to January 1, 1992. Any large project requiring a greater time period for construction, should be done in phases. This phasing of a

project, particularly single family, rowhouses, and duplex and quadruplex, enables the PB to exercise better control over the project. The phasing may not be feasible with multifamily construction, in which case a larger pre-sales requirement, with deposits, of 75-80% of all units should be required by the PB at the time of construction credit application.

6.1 Loan Agreement

The PB Loan Agreement must contain the following items:

- Names: Borrowers, Guarantors
- Name of Project, type, and loan amount
- Property location address, jurisdiction
- Loan terms, interest rate, maturity repayment schedule, purpose of loan
- Loan fees due PB
- Schedule of disbursements, incorporating dates for receipt of invoices by PB and schedule for PB site inspection
- Personal and corporate guarantees of the borrowers. Identify the net worth of each guarantor, if any, and clear statement of guarantors liability for the repayment of the credit, and any exclusions of assets by guarantors.
- Modification clause requiring Mortgage Fund approval of any modification affecting delays in excess of 45 days.
- Cost increase in excess of 10% or any change in number or size of units.
- Wechsel of borrower and of other guarantors
- Excerpt of Commercial Registrar and of Business Activities Registrar
- Detailed description of use of credit with specification of all segments of the technical documentation which will serve as basis for project implementation
- Disbursements will not occur until the PB's mortgage lien is registered, invoices validated, and site inspection.
- Identification of contractor, sub-contractor, architect
- Land survey and recorded plat
- Evidence of hazard insurance
- Legal opinion with respect to land ownership or lease
- Building permit, approvals from utilities referenced.
- Clause permitting modification of lien if agreed to by all parties, including guarantors
- Borrower cannot obtain any other loan or credit without PB approval
- Material and adverse conditions clause whereby borrower must advise PB of any adverse change in corporate or personal financial condition
- Clause permitting PB to advance hazard insurance funds if borrower-developer does not renew required insurance. Failure of borrower-developer to obtain insurance may be cause of default

- PB may disburse funds directly to contractor and sub-contractor and material suppliers.
- List of events of default
- Clause, which can be exercised at the option of the PB committing borrower-developer to "deed-in-lieu" whereby, in the event of default which is not cured, the borrower-developer will turn the project over to the PB without any legal action.

7 CONSTRUCTION LOAN SERVICING PROCEDURES

Once the loan agreements have been signed, including the "Weksel", no funds can be released until the first lien has been recorded and submitted to the PB, as well as the Hazard Insurance Policy. The PB loan file will include all of the borrower and the project documents submitted at application. The loan servicer at the PB will prepare the loan file, with a check list on the front of the loan folder, listing all the documents in the file. If any of the documents are removed, the person borrowing initials by the document name on the checklist until the item is returned.

The loan file will be in the possession of the servicing person, but the site inspector employed by the bank should have easy access. The site inspector should review the contents of the loan file prior to the initial draw request inspection. This initial visit after the closing of the loan will actually be the second or third visit to the project in the case of multifamily construction. Prior to the PB's releasing any funds under the construction loan agreement, the PB's site inspector must visit the project, and with invoices in hand for the work performed, verify that all material and supplies billed for are in fact, in place on the project. The inspector must file a report with the loan servicing person indicating the results of the inspection and concurring with the requested funding or reducing the amount for incomplete work. These inspection reports will be retained in the loan file. It is recommended that a site inspection be conducted each month whether a draw request for funding has been made or not. The loan file must be kept current and up to date by the PE loan servicer staff as the Bud Bank will periodically request to review the loan file. The Bud Bank will also periodically, unannounced, conduct site inspections of all construction projects refinanced for PB's with its own inspector.

With the construction loans the loan servicer must be certain that the following documents are updated and currently available in the loan file:

- monthly, quarterly and annual corporate financial statements on the Central Statistical Office forms or other documents filed with the Tax authorities
- annual personal financial statement of the borrower and any guarantors;
- annual certification of tax payments if the land is owned, also for corporate and personal taxes;
- annual renewal of hazard insurance policy;
- all pre-sales agreements, including those units sold subsequent to the construction loan closing; and
- developer must submit quarterly sources and uses of funds statements showing how equity, purchases, partial payments and loan proceeds are being utilized. Loan servicer and site inspector must review this report prior to each funding of a draw request. No funding request will be granted by the PB if this quarterly source and uses report has not been

properly and timely filed.

The final 10% (retainage) of the construction loan is withheld by the PB until the following have been verified:

- o local authorities have issued occupancy permit
- o verification that there are no other liens than that of the PB lender
- o purchaser of unit has obtained a mortgage which, with purchaser's downpayment, at least equals the release price calculated by the PB servicer
- o developer is current with interest payments on the construction loan to the PB if construction loan interest is not being capitalized
- o purchaser has indicated that a final inspection has been conducted and the purchaser is satisfied with the unit, and there are no holdbacks.

The 10% retainage of the construction loan will be released to the developer following the PB's receipt of certificates of purchase from all the buyers and/or through the settlement attorney representing the purchasers of each unit. There is an option to disburse a portion of the construction loan related to the units sold.

Interest on the construction loan can be paid monthly, quarterly or capitalized and repaid with principal, when units have been approved by the appropriate governmental authority.

If the borrower-developer chooses to pay interest monthly or quarterly on the construction loan, but becomes delinquent more than 30 days and is unable to make the proper payment within 30 days of the due date, the interest is then capitalized for the balance of the loan period. The addition of interest on interest will motivate the borrower-developer to make current payment, if possible.

The PB should collect any applicable late charges on payments received after the due date. The PB should initiate contact with a delinquent borrower-developer as follows:

- * Telephone contact within 5 days of due date;
- * Written notification within 15 days of the due date, requesting payment within 5 days;
- * By the 20th day after the due date, notice is sent that unless payment is received by the 30th, or a plan for payment has been agreed upon by the PB by the 30th, all interest is capitalized for the balance of the loan period.

With interest being capitalized, the borrower-developer should complete the project. If, for any reason, progress on the project development ceases and the project is abandoned, the PB must invoke all legal remedies to take possession of

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the project and proceed to arrange for completion.

8 REFUND OF THE CONSTRUCTION CREDIT

The Bud Bank has access to three construction credit refund programs. The first is the USAID Housing Guarantee program which will refund 100% of the loan amount the PB has agreed to lend using the Underwriting criteria in this lending guide. The second program is sponsored in the World Bank and will refund 80% of the loan extended by the PB using the underwriting criteria in this construction lending guide. The construction project must have commenced after January 1, 1992. The third program, EBRD Loan Fund, requires that construction commence after January 31, 1992.

The first three multifamily construction loans made by a PB with intentions to refund with Bud Bank, must have received pre-approval by Bud Bank. The PB must initially underwrite the borrower and the project strictly according to the guidelines in this lending guide. If the PB finds that the loan meets all criteria, the PB issues a conditional approval to the borrower-developer and requests a pre-approval review by the Bud Bank. The Bud Bank will review the entire loan file and if Bud Bank concurs with the PB recommendation, Bud Bank will issue an agreement to refund the PB loan at either 80% or 100% depending on which program Bud Bank has available. Bud Bank will take only 30 days to complete its review and make a decision on the loan. The Bud Bank will inform the PB of the interest rate Bud Bank will require on the refinance. The PB will add a margin to reflect the cost of servicing the loan. The PB will have collected 1 - 1 1/2 percent of the amount of the original loan. The PB retains the balance of the origination fee and the "spread" or "margin" between the interest collected from the borrower and the interest paid to Bud Bank.

Once Bud Bank issues approval to refund the loan, PB issues a commitment to the borrower-developer and upon acceptance, closes the loan. The initial funding takes place when the PB mortgage lien upon the land and anticipated construction has been recorded and delivered to the PB. The Bud Bank's collateral for the refund of the PB loan is a subintabulat placed on the mortgage now secured by PB on the land and the construction to be erected. The Bud Bank will not fund the refund until the subintabulat on the mortgage has been properly recorded and submitted, by the PB to Bud Bank. The costs associated with this registration must be borne by PB or passed on to the borrower-developer. At this point Bud Bank is prepared to refund the funding PB will make to the developer subject to proper documentation (site inspection and invoice verification).

Also, the PB's inspector must verify the "work in place" by a site inspection and review of work and material invoices. The PB then informs Bud Bank that a funding will take place, and forwards to the Bud Bank a copy of the inspection report with copies of the invoices. The inspection report should include endorsement of the invoices, photographs of the work in progress, and a brief narrative by the inspector on the status of the project i.e., is the project on schedule, quality workmanship, good management, etc. Within 5

days of receipt of this report, Bud Bank must take exception or fund 80% or 100% of the proposed advance.

The PB can schedule the funding of the borrower-developer to occur concurrently with receipt of funds from Bud Bank. This can be accomplished by requiring 10 days notice by the borrower-developer requesting a funds disbursement. The borrower-developer must submit all invoices with the request for funding and the PB has 5 days to verify work in place. If the PB is satisfied the request is fully documented and work is in place, the PB forwards the request to Bud Bank who has 5 days to take exception or proceed with refunding the advance concurrently with PB disbursement. The PB has the option of first funding the disbursement directly and then requesting refund, or scheduling the refund concurrently. The PB could schedule the funding to the investor to occur concurrently with receipt of funds from the Bud Bank. If the loan agreement with the borrower-developer has pre-set funding dates, the PB must require that invoices be submitted at least 10 days before the funding date so that the PB has 5 days for review and submits the application for refunding to the Bud Bank and the Bud Bank verifies and makes the payment within an additional 5 days. The PB has the option of first funding the disbursement directly and then requesting Bud Bank refunding.

The procedure is repeated for each funding advance to the borrower-developer. If the borrower is paying interest monthly on the construction loan, then monthly interest payments must be remitted to Bud Bank. If interest is being capitalized by the PB, the interest due Bud Bank can also be capitalized.

Bud Bank will periodically conduct its own site inspections with its staff. Also Bud Bank will periodically visit PB to preview the loan file and over all servicing of the loan. Therefore, it is important for the PB to keep all loan documents current and maintain a good record of loan servicing. The key aspects of this loan servicing procedures are:

- o maintaining accurate records on the status of taxes, leases or any other potential lien against the property
- o ensure that adequate hazard insurance coverage is in place, and properly renewed
- o the site inspection reports are accurate and timely with all valid invoices endorsed, and photographs showing progress at the project
- o maintain accurate records of all interest calculations, for current or capitalized interest
- o The PB must be aware of any other liens placed on the PB security (Property) and any legal actions against the developer

8.1 Hazard Insurance Loss

The amount of hazard insurance coverage should be in the amount of the total

project cost. This protects the developer's equity and the PB's loan. The insurance policy should be in the loan file, and the policy should have a "cession" clause naming as the beneficiaries the developer and the PB, with the name of the PB followed by "its successors and or assigns". The cession clause makes losses under the insurance policy payable to the developer and PB acting jointly to ensure that the funds are used to replace the damaged project.

When a property is damaged, the PB must closely monitor the following:

- file proof of loss with insurer
- help the borrower-developer obtain bids to repair the property
- review and approve the final plans for the repairs
- monitor the repairs to see they conform with regional plans and specifications
- disburse funds upon evidence of completion of work
- assure that no other liens are placed on the property.

The PB must also be certain that the insurance carrier providing the hazard insurance is a qualified firm with sufficient financial resources to make any loss payment. The PB should request the insurance carrier (provider) to present financial statements at the time the developer seeks the hazard insurance coverage and to evidence membership in Insurance Guaranty Fund. Also, the PB must advance funds for the insurance coverage if the borrower-developer does not. The PB will add such funds to the balance of the loan. However, if the borrower-developer is unable to pay for the hazard insurance, the PB should verify that the loan disbursements are being properly used in the construction project. All other steps should be reaffirmed to protect the PB's security if the borrower-developer is experiencing financial difficulties.

9 REPORTING TO BUD BANK

The following will be detailed in reporting to the Bud Bank:

- o Interest paid monthly, quarterly or capitalized
- o PB margin over and above the Bud Bank refinance rate of 300 basis points above the base refinance rate of the NBP
- o Bud Bank refinance percentage -- either 100% or 80%
- o The maturity of the construction loan -- maximum of 18 months for single family or 24 months for multi-family.
- o Repayment schedule for Bud Bank refinance -- monthly, quarterly or at project completion.

The PB must have an accounting system able to produce the following reports for Bud Bank:

- o amount, date of any interest payment
- o if interest is capitalized, monthly summary of such interest calculations
- o date, amount, and breakdown of each funding disbursement by PB to developer
- o current outstanding principal balance of loan, summarized by preceding months of loan.

The PB will, on dates specified in the financing agreement, i.e., monthly or quarterly send an interest statement to the borrower regardless if the interest is paid currently or capitalized. If the interest is paid currently, payment must be received by the last working day of the month. The monthly reporting cycle will run from the first day of the month through the end of the month. The cut off day is considered to be the last working day of the month. Remittances are due no later than 5 business days from the month in cut off date. If payment is not received, the servicing procedures in Section 7 of this Guide should be immediately instituted. When interest funds are received by the PB the interest payment to Bud Bank should be made within one day

In the case of a loan payoff- entirety or partially- in the form of release prices for units purchased by owner-occupant, payment should be made to Bud Bank within 48 hours.

The PB will prepare a monthly report to Bud Bank. this report will have the following for each construction loan refunded by Bud Bank:

- o PB loan number
- o Bud Bank loan number
- o Developer's name and the project name and location
- o Amount committed by PB
- o Date of loan closing by PB
- o Date of first disbursement by PB to borrower-developer
- o Date of subsequent disbursements and amounts
- o Budget variance analysis - actual disbursement/expenses compared to budgeted

- amounts
- o Outstanding balance of loan at report date
- o Interest paid - if currently paid or capitalized
- o Amount refunded by Bud Bank
- o Amount of interest paid Bud Bank, if any
- o Capitalized interest to Bud Bank, if any
- o The balance of funds refunded by Bud Bank less any repayments by PB
- o Number of units planned in project
- o Number of units commenced
- o Actual number and percent of pre-sales with 10 percent downpayments
- o Actual number of units released through purchase by owner-occupant

10 CASH FLOW

10.1 Calculation of Loan Interest Payments from PB to Bud Bank

Interest will be calculated in arrears based on actual (360) days per year and actual (30) days per month, on the amount disbursed, at the rate described above.

The interest rate charged the PB each month will be based on The National Bank of Poland refinance rate plus a margin (spread) of no less than 3 percentage points. If The National Bank of Poland rate changes during the course of the month, the interest that the PB will be charged will also change the first of the next month.

10.2 Remittance to Bud Bank

Remittance to Bud Bank is made on the basis of the payment plan. If interest payments does not begin until construction is complete, remittances are not due to the Bud Bank until the completion of construction, unless the borrower-developer makes payments to the PB prior to completion. If the borrower-developer does make payments prior to completion, the PB will remit the participation percentage of the payment to Bud Bank. For those construction loans collateralized against Housing Guaranty Resources the repayment will be equivalent to 100% less the servicing fee. The repayment for collateralized construction loans using World Bank resources will be equal to 80% or less (the actual percentage agreed to in the Sub-loan Agreement) minus the servicing fee.

For those construction loans having interest remitted monthly, the PB must remit the funds to the Bud Bank by wire transfer within five business days from the first of the month.

10.3 COMMITMENT TO REFINANCE CONSTRUCTION SUB-LOANS

The commitment process is designed to match the PB's needs to have its pipeline of construction sub-loans refunded by the Bud Bank on a timely basis with the Bud Bank's requirement to have advance notice for refunding Financing Agreements.

Using the Construction Commitment Form, PBs notify the Bud Bank of their anticipated funding requirements for the succeeding three months during the first five business days of each month. The following information is requested:

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- New Agreements: Anticipated total amount to be refunded by Bud Bank at its participation percentage of pre-approved construction sub-loans plus the amounts for subsequent draws during the succeeding two months.

- Draws and advances against existing Agreements: The amount and date for each disbursement in the initial month and projection for the succeeding two months.

Mortgage and construction commitments will be separately recorded, key terms of the construction commitment are:

- In the case of new Agreements, Bud Bank's interest rate charged to the PBs is not established until the actual disbursement date.

- If the PB's commitment amount for the current month differs by more than plus or minus 10% from the amount actually disbursed, Bud Bank may, at its option, charge its normal refinance rate plus additional 10% interest on the zloty variance. However, projections for the remaining two months of the period may be modified by the PB when it estimates its Construction Commitment Form the following month.