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

HOUSING GUARANTY PAPER 1971

Proposal and Recommendations
For the Review of the
Development Loan Committee

ISRAEL: TEFAHOT ISRAEL MORTGAGE BANK, LTD.

AID-DLC/P-996

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AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

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AID-DLC/P-996

November 5, 1971

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Israel: Tefahot Israel Mortgage Bank, Ltd.

Attached for your review are the recommendations for authorization of a guaranty of \$50,000,000 assuring against losses of not to exceed one hundred percent (100%) of the loan investment(s) and interest thereon by an eligible U.S. Investor or Investors acceptable to A.I.D. to be provided to Tefahot Israel Mortgage Bank, Ltd., a mortgage credit institution in Israel, for the long-term mortgage financing of housing projects.

This guaranty proposal is scheduled for consideration by the Development Loan Staff Committee at a meeting on Wednesday, November 10, 1971.

Rachel R. Agee
Secretary
Development Loan Committee

Attachments:
Guaranty Analysis
Addendum
ANNEXES I and II

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November 5, 1971

INTRODUCTION

The Office of Housing has been fortunate in the preparation of this analysis, to have had the full support and cooperation of the American Embassy in Tel Aviv which arranged a full dialogue with senior officers of TEFAHOT during the early stages of deliberations. That exchange of information and discussions was supplemented when TEFAHOT sent its General Manager, its Comptroller and its Counsel to the U. S. during the latter part of August for detailed discussions on technical aspects of the proposal. These latter consultations extended over a period of four weeks and the collective processes have demonstrated that the applicant is a sophisticated, highly qualified housing finance institution which will utilize the resources of this loan to add an additional dimension to its already distinguished reputation.

STRUCTURE OF THE PRESENTATION

The presentation comprises the following documents:

1. Housing Guaranty Proposal - Memorandum to the Housing Guaranty Review Committee of the Bureau for Near East and South Asia. The proposal is based on and supported by the Feasibility Review of the Application from Tefahot Israel Mortgage Bank Ltd., dated October 5, 1971. The Feasibility Review was made by the Office of Housing, Agency for International Development and is available in that Office.
2. Addendum to the Proposal
3. ANNEX I - Draft Guaranty Authorization
4. ANNEX II - Statutory Check List

NOTE: Wherever the phrase "A.I.D. loan" is used in these documents or in the Feasibility Review it should be taken to read "A.I.D. Housing Guaranty Investment Loan."

November 5, 1971

MEMORANDUM TO THE HOUSING GUARANTY REVIEW COMMITTEE OF
THE BUREAU FOR NEAR EAST AND SOUTH ASIASUBJECT: Proposed Housing Guaranty Program for the
State of Israel

PROBLEM: Request that Authorization be given for the issuance of a guaranty of \$50 million to provide long-term mortgage financing through "TEFAHOT" Israel Mortgage Bank, Ltd., for the Housing Program herein proposed.

DISCUSSION:SECTION IGENESIS OF THE PROGRAM

- A. On November 17, 1970, a letter was sent by Mr. Moshe Mann, Director General of TEFAHOT, to Mr. Stanley Baruch, Director of the Office of Housing, A.I.D., to explore the possibility of securing an A.I.D. guaranty for U. S. Investors, previously contacted by TEFAHOT, willing to invest approximately \$50 million to provide mortgage loans for home buyers in Israel.
- B. During a February 10, 1971 meeting with the Israeli Minister of Finance, Administrator Hannah stated that A.I.D. viewed favorably the GOI proposal for an A.I.D. housing loan guaranty of \$50 million. Dr. Hannah's approval was transmitted to American Embassy Tel Aviv by State 24283.
- C. On February 16, 1971, the Israeli Ministry of Finance forwarded to Mr. J. B. Button, Counselor of Economic Affairs, U. S. Embassy, a letter from Mr. Mann, Director General of TEFAHOT, requesting a \$50 million Housing Guaranty Program consisting of five categories of projects; more fully detailed below.
- D. In March 1971, the Assistant Administrator of the Bureau for Near East and South Asia gave permission for a feasibility study of the Israeli proposal. Since then, the Office of Housing has been in continuous contact and communication with the senior officials of TEFAHOT to secure the material necessary for the preparation of this feasibility study now being submitted to the Committee.

E. On July 6, 1971, cable Tel Aviv 3992 reported that during a meeting with the Israeli Minister of Finance, Dr. Hannah reiterated his February approval of a \$50 million A.I.D. Housing Guaranty Program upon the condition that none of the funds would be spent outside of Israel's pre-June 1967 borders.

F. By letter of May 9, 1971 Mr. Menochem Naveh, Director, Office of Foreign Assistance, Ministry of Finance, confirmed that no part of the A.I.D. guaranty loan will be used for housing projects outside of Israel's pre-June 1967 boundaries.

G. In its memorandum of June 28, 1971, TEFAHOT states that the Ministry of Finance, on behalf of the State of Israel, will guaranty this loan.

SECTION II

THE PROPOSED HOUSING GUARANTY PROGRAM

TEFAHOT proposes to borrow \$50 million from U. S. Investors under an A.I.D. Guaranty. The funds will provide mortgage financing for the benefit of the five critical groups of the population described in Section I, page 4 of the attached feasibility report.

The Government of Israel will provide a full faith and credit guaranty to A.I.D., and, in addition, will affirm that none of the funds to be provided hereunder will be used directly, or comingled with other funds used to finance dwellings outside of the pre-June 1967, boundaries of the country.

This is a classical institution building loan, designed to collaborate with TEFAHOT in making its resources available to an increasing percentage of Israeli families. Under these circumstances, projects per se are not as important in the A.I.D. underwriting process as is the case with lesser qualified borrowers.

Nevertheless, this paper and the analysis of the Israeli housing situation contained in the attached feasibility report, covers the highly sophisticated Israeli technology and project methodology that will be used to implement the proposed program. It is additional evidence of the borrower's capacity to use A.I.D.'s guaranty resources effectively, efficiently and expeditiously.

A. Summary of Israel's Housing Problems

1. General Statement of the Problem

As a comparatively new country created under difficult circumstances and faced with unusual developmental problems, Israel has, as yet, been unable to rationalize its political and economic growth with its unusual requirements for residential construction. Because of the special circumstances involved, Israel's housing problems have assumed greater importance in this process than is usually found in other developing nations.

The housing problem contains the typical factors of natural increase in population, slum growth through concentration of urban population, and, obsolescence of existing dwellings. In addition, however, Israel has the continuing problem of housing large numbers of immigrants and absorbing the ethnic minorities into the life style of the country.

Israel's attempts to solve the problems through public housing projects (described in the feasibility report) are restricted by a lack of capital for mortgage financing and by high construction costs.

The GOI has a well organized program of assistance to home buyers (see feasibility study) but, to spread as widely as possible the benefits of the restricted funds available, mortgages have been limited to 40% to 50% of the value of a home. This small mortgage coverage and the high construction costs result in the requirement for very large cash down-payments.

The large downpayments and the length of time required for the average Israeli to accumulate them, effectively place home ownership beyond the reach of many families otherwise capable of paying for a home out of current income.

2. Specific Needs

In attempting to make the highest and best use of the funds available for its housing programs, the GOI has analyzed the needs of its people from a socio-economic point of view and established five categories where the need for assistance is most critical.

The GOI identifies the categories as: New Immigrants, Young Couples, Slum Clearance, Agricultural Settlements, and Minorities; a detailed description of them is found beginning

on page 4 of the Feasibility Study. The categories are essentially composed of people from the low and low-middle income level of the population upon which the Housing Guaranty Programs are traditionally focused.

The GOI programs are not exclusively limited to the five categories. They will receive priority consideration in the allocation of AID funds and, therefore, are described most fully in this paper and the attached Feasibility Study. Nevertheless and notwithstanding as the program evolves any other worthy types of activities which satisfy the established parameters will be given friendly and sympathetic consideration.

As set forth in the table on page 7 of the feasibility report, the GOI Ministry of Housing and the Authority for Economic Planning of the Ministry of Finance estimate that 41,000 dwelling units will be required for fiscal year 1971/72, and a somewhat increased requirement for each year until 1975, the end of the present planning cycle.

The budget of the GOI for 1971/72, provides for a total of 30,000 "housing solutions" 10,000 of which will be subsidized rental units for families with an income level below that necessary to sustain home ownership. A gap of approximately 11,000 units is, therefore, left between the demand and the supply. TEFAHOT plans to use the A.I.D. loan funds to facilitate the construction and financing of dwelling units to bridge this gap.

B. Application of A.I.D. Funds

TEFAHOT will use the A.I.D. loan funds in the usual combination of construction and long-term mortgage financing resulting in improved credit terms for the buyers of the homes.

The percentage of mortgage coverage will be increased from the present 50% maximum to approximately 70% of the price of the home. TEFAHOT's plan to increase the mortgage to value ratio is expected to tie in with a new policy of the Minister of Housing designed to encourage construction of more and smaller dwelling units.

The smaller units will be more economical and, together with smaller downpayments made possible by use of the A.I.D. loan funds, will make home ownership a possibility for a greatly increased number of Israeli families.

C. Devaluation of the Israeli Pound

The recent devaluation of the Israel pound from IL 3.50 to IL 4.22 against the U. S. dollar will probably result in an increased number of homes built and financed through the HG Program; but a realistic estimate of such increase is not available at this time.

Although the devaluation was approximately 20% the figures used throughout this presentation cannot simply be adjusted proportionately because component cost factors will increase and effectively reduce the percentage of dollar advantage.

That is to say, the dollar will buy 20% more Israel pounds but, because local costs will increase, the pound will not buy 20% more land, labor, materials, technical services, etc., therefore, there will not be a 20% increase in the number of homes built.

Realistically, the number of homes to be built and financed through the HG Program will be determined by the level of local costs when construction contracts are signed and not by a devaluation percentage factor between the pound and the dollar.

More importantly however, no useful purpose would be served by estimating potential cost changes in this presentation because: 1) the concepts of the program and its implementation procedures will in no way be changed by the devaluation, and, 2) the GOI can easily apportion such increased construction as may result.

D. Details of Proposed Projects

The Technical Division, Office of Housing, A.I.D., has prepared a feasibility review of sample plans, specifications, cost estimates and proposals for use of A.I.D. funds furnished by TEFAHOT. The review is attached as an annex to the full feasibility report and summarized here:

Proposed Location of Projects and Approximate Number of Units

Haifa and Central Area (including Tel Aviv)	9,532
Gaililee Area	500
Negev Area	<u>1,518</u>
TOTAL	11,550

The majority of the projects will consist of four story buildings with four apartments per floor and, row houses with two apartments per floor, using concrete block construction. Plumbing and electrical fixtures will be provided in accordance with needs and established Israeli standards and the urbanization will comply with the requirements of the pertinent Israeli authorities.

Construction Costs

Data from the Ministry of Housing on actual cost of projects in various areas show costs for a typical 73 square meter apartment, with related urbanization, and a density of four apartments per 1,000 square meters, as follows:

Location	Site Develop- ment IL.	Raw Land 7,000	Material IL.	Labor IL.	Plann & Adminis. IL.	Approx. Sale Price IL.
Haifa & Central Area	5,000	7,000	15,000	14,000	2,000	43,000
Gallilee Area	8,000	1,000	17,000	17,000	2,000	45,000
Negev Area	7,000	1,500	16,000	16,000	2,000	42,500

Proposed Allocation of A.I.D. Financing

Although project planning is in the preliminary stage and subject to revision, TEFAHOT has proposed use of A.I.D. loan funds to assist the five categories of the population whose needs are considered most critical. The amounts shown below are approximate totals for each category.

<u>Category</u>	<u>Total IL.</u>
Young Couples	100,000,000
New Immigrants	75,000,000
Slum Clearance	25,000,000
Agricultural Settlements (Villages)	15,000,000
Minorities	<u>1,100,000</u>
Total	216,100,000
TEFAHOT Participation	<u>41,100,000</u>
A.I.D. Guaranteed Funds	175,000,000

Local Participation in the Program

There will be three types of local participation:

(a) TEFAHOT will provide approximately IL 41,100,000 from its own funds.

(b) The GOI will provide interest supplements and other subsidies made available for public housing projects.^{1./}

(c) The home buyers will participate through their downpayments of approximately 30% of the sales price of their home.

E. Project Development

Housing in Israel is divided into "Public" and "Private" categories. In summary: "Public" housing includes all housing produced and financed under the various GOI plans for those who can become homeowners only with GOI assistance, and, "Private" housing includes all other housing constructed and financed by the private business sector. (See Section I of the Feasibility Review for details).

As the entire \$50 million Housing Guaranty loan is proposed for public housing, project development will strictly conform to policy directives from the GOI Ministry of Housing and Ministry of Finance. Therefore, project feasibility and the quality, costing and financing of the individual units will be subject to direct and severe supervision of a wide range of official and objective authorities.

The supervision and control of the Ministry of Housing over all public housing projects commences at the planning stage and terminates only at the expiration of the construction guarantee period. The construction is on the basis of bids submitted by qualified private contractors.

TEFAHOT will serve as Administrator for the program.

F. Market Analysis

Data accumulated by the Ministry of Housing during surveys of housing needs and markets demonstrates the ability of the market to support the costs of home ownership. The table

1./ See Government of Israel assistance to home buyers, Section III, page 11 of feasibility report.

below shows the percentage of financial assistance required by various critical categories of the population to purchase homes during fiscal year 1971/72:

Rate of Assistance Required	New Immigrants Units	New Couples Units	Large Families Units	Agricultural Settlements Units	Minorities Units
100%	7,000	2,000	2,000		100
80%	4,000	7,000	2,000	3,000	200
50%	3,000	6,000			500
25%	1,000	3,000			200
Totals	15,000	18,000	4,000	3,000	1,000

It should be noted that for the various categories shown as requiring 100% assistance, the GOI attempts to provide housing through subsidized rental units or other social welfare programs. Housing Guaranty Loan funds will not be used in these programs.

G. Ramifications of Proposed Program

1. Israel's Debt Service Burden

It is estimated that the proposed loan will have a beneficial, rather than an adverse effect on Israeli debt service. Israel is still compelled to rely on large capital inflows and the proposed loan, being a long-term one, will reduce Israeli dependence on short-term loans. Accordingly, the foreign debt composition will improve and, consequently, the burden of debt service will also improve.

As to Israel's ability to meet her obligations, it should be noted that Israel has not at any time defaulted on payment of principal or interest on any debt. In addition, according to forecasts by the Economic Planning Authority of the GOI, the gap in current accounts of the balance of payments will start to decrease in 1972, and the projected capital inflow will suffice to cover the gap and meet the debt service obligations.

2. Indirect Benefits of the Housing Investment Guaranty Program

When downpayment requirements are reduced through the use of A.I.D. funds, many more Israeli families can anticipate becoming homeowners. The possibility of homeownership at a much earlier date than previously will induce many more families to participate in the savings for Housing Schemes.

Although Israel does not have a savings and loan system, it is anticipated that significantly increased participation in the savings for housing schemes will have an impact upon the Israeli economy similar to that produced in other countries through a savings and loan system.

SECTION III

TEFAHOT Israel Mortgage Bank, Ltd., Proposed Borrower

TEFAHOT was incorporated in 1945, for the purpose of granting mortgage loans to assist in the financing of public housing projects throughout the country.

TEFAHOT is owned and controlled by the Government of Israel although a minority of its shares are held by the general public and traded on the Israeli stock exchange. It is the largest mortgage credit institution in the country and as of March 31, 1971, had 75,000 loans in the approximate amount of \$357.1 million on its books.

In addition to its home finance operations, TEFAHOT administers the Government sponsored "Savings for Houses" Program which is an important aspect of the assistance provided for prospective home buyers.

TEFAHOT is a modern, up-to-date, banking institution using procedures and having technical capacities and physical facilities that equate favorably with those found in the U.S.

As an example of its ability to effectively expand its operation in direct proportion to the investment capital available, new loans placed increased from a total of \$31.7 million in FY 69/70 to a total of \$52.2 million in FY 70/71. It is therefore believed that TEFAHOT will have no difficulty in drawing down and effectively using the \$50 million A.I.D. guaranteed loan over the proposed disbursement period of approximately 2-1/2 years.

The attached feasibility study contains a detailed description of TEFAHOT and its operations.

Conclusions and Recommendations

Conclusions

1. A need has been demonstrated for an institutional development loan to strengthen TEFAHOT's ability to provide long-term mortgage financing for an increased percentage of Israeli families.

2. TEFAHOT is the most sophisticated and technically qualified mortgage finance institution to have applied for a Housing Guaranty Loan and that it has full capabilities to develop and administer an effective HG Program.

3. The application for a \$50 million A.I.D. housing guaranty should be approved.

November 5, 1971

ADDENDUMNESA Housing Guaranty Review Paper

As a result of the NESA Housing Guaranty Review Committee meeting on November 1 and 2, 1971, the following points were noted as requiring clarification:

1. Further elaboration of the construction costs analysis contained in the Housing Guaranty Review Committee paper, Page 6.

* * * * *

The analysis demonstrates that for those families who are capable of participating in programs using the resources of the A.I.D. Housing Guaranty Program, the formula which incorporates their aspirations, their capacity to pay and the realities of the relatively high construction, land, labor and material costs in Israel, produces a range of selling prices, the lowest of which is IL 42,500 and the highest to which we elect to subscribe considering market conditions is IL 56,000, approximately \$12,000 to \$16,000 at the rate of IL 3.5 to \$1. This range precludes the fruitless exercise of establishing ceilings which in fact are too low to be built in Israel, and, at the other extreme eliminates the more elaborate dwellings within the GOI's own housing plan (the IL estimates were calculated prior to the devaluation of August 22, 1971)..

It is never possible precisely to predict the impact of monetary devaluation upon residential construction. The strong performance standards and price controls exerted by the GOI as a basic component of its National Housing Plan, will assure the maximum value at the lowest competitive price even in devalued IL. Therefore, if the effect of the devaluation is to reduce the housing costs, the AID guaranty dollars automatically will produce an additional number of homes.

2. The effect of the Housing Guaranty Program upon the economy of Israel, i.e., will it be a contributing factor to inflation in general and to increased costs of construction in particular.

* * * * *

In the first place, the potential inflationary impact under any combination of circumstances is minimal since the \$50 million-loan represents only one percent of the gross national product, and even arithmetically, the implications are of no real significance.

Nevertheless, and of more substantive relevance is the fact that the impact of the proposed \$50 million loan will involve a shift away from non-residential construction and away from more expensive residential construction into an area defined above as part of the National Public Housing Program. Within this National Program, controls exerted by the responsible government authorities will in fact serve to limit the costs, profits and all other fiscal facets of the construction process. The net impact therefore on the construction industry will be positive from the point of view of the nation's economy, since it will involve an extraordinarily heavy emphasis on lower priced units designed exclusively for residential purposes.

3. The impact of devaluation upon the program:

a. Effect upon costs, prices, and payments and whether more or less homes will be built.

b. If more homes are built:

(1) Would that not be in excess of the market, as GOI figures show only 11,000 needed?

(2) As the 11,000 could be produced for less cost, is it possible to cut back on the \$50 million?

* * * * *

The precise implication in the reduction of housing costs or the additional number of homes that can be built with a given amount of money can only be roughly estimated. A fair, conservative calculation by the Israeli authorities concurred in by the Office of Housing staff based on its extensive experience with this issue is that at most a 5 to maximum 10 percent savings may result. This saving in no way effects the logistics of the proposed loan, while the charts that have been prepared demonstrate a one-year deficiency of 11,000 homes which was intended to be accommodated by the A.I.D. guaranty. The backup data and all of the statistics demonstrate without any question of doubt that over a reasonable two-year period, the deficiency is at least double that figure, and to the extent that the devaluation may in fact provide for the financing of some small percentage more than 11,000 homes, it will serve merely to reduce the remaining deficit by a very tiny extra amount.

4. What will be required of the home owners to offset the fluctuating exchange rates and possible future devaluation of the Israeli pound.

* * * * *

The interest rate that the home owner pays includes three to four percent which is a premium to the government to insure against future devaluation risks. Including this premium, the maximum interest rate paid under any of the programs forming a part of the National Housing Program of Israel will be 12 percent, and in many cases will be less, depending on the category of program.

5. In the event of a single disbursement of the full \$50 million, how will TEFAHOT handle this resource so as to assure as equitable an arrangement for future home owners as might have occurred in the event of periodic draw-downs related to potential, future devaluations.

* * * * *

The question becomes academic by virtue of the TEFAHOT commitment to deposit the disbursement in the Bank of Israel where it will be maintained in dollars until required for program implementation. Until transfer from the Bank of Israel for this purpose, interest will be paid by the Bank of Israel to TEFAHOT exactly equivalent to the cost of the money to TEFAHOT plus the guaranty fee, plus the minimum service fee not exceeding 1/2 percent for TEFAHOT handling. It is probable that under the conditions of the program described in the feasibility study, actual transfers will in fact occur at a rapid pace, and therefore the single disbursement will be convenient for TEFAHOT, convenient for the Israelis' home building and home financing industry, convenient for the U. S. lender, and convenient for the administration of the program by the Office of Housing.

6. Does TEFAHOT make loans outside of the pre-June, 1967, boundaries of Israel?

* * * * *

Yes. Nevertheless, the iron clad, irrevocable, absolute commitments of Israeli authorities at the highest levels assure that none of the resources of this loan will be used outside of the pre-June, 1967, borders, and will not in any manner be co-mingled in a fashion that could be interpreted as breaching the spirit of this agreement.

7. Will TEFAHOT maintain the A.I.D. Housing Guaranty Funds in separate accounts?

* * * * *

Yes. TEFAHOT shall maintain an accounting system which will enable identification of those housing loans in which A.I.D. guaranteed funds are invested and the current condition of each such loan. In addition, by virtue of this separate system, it will be possible to demonstrate that no part of any housing financed any place outside of the pre-June, 1967, boundaries will utilize A.I.D. housing guaranty funds.

8. What is the term of the mortgage loans to the ultimate home owner?

* * * * *

In no case will the loan be for less than 12 years and the average range will be from 12 to 15 years at 12% interest, so that in fact over the life of the A.I.D. loan, perhaps as much as 200 percent of the original number of houses will have been financed.

9. Unfortunately, a typographical error has been found in the table on Page 3 of Annex No. 3 to the feasibility report. Within that table, the heading "Minorities" should read "Total IL 11 million" instead of IL "1 million", and the totals changed proportionately.

10. TEFAHOT balance sheets and profit and loss statements were not provided with the HGRC paper.

* * * * *

Current balance sheets and profit and loss statements covering fiscal year 1971 were provided by TEFAHOT and reviewed by A/H personnel. The documents effectively support the analysis of TEFAHOT and its operations found in Section IV, page 17 of the feasibility review. Because of the rather voluminous nature, the information was not included in the HGRC paper but is available for review in the files of the Office of Housing.

11. What is the foreign exchange component of housing construction costs in Israel?

* * * * *

TEFAHOT reports that direct and indirect foreign exchange costs represent approximately 10% of the construction costs of the average Israeli home.

A.I.D. Guaranty No. _____

(Ref. A.I.D.-DLC/P)

Guaranty Authorization

Provided from: Housing Investments Guaranty Funds

Israel: TEFAHOT Israel Mortgage Bank, Ltd.

Pursuant to the authority vested in the Assistant Administrator for the Near East and South Asia, Agency for International Development, by the Foreign Assistance Act of 1961, as amended, (FAA) and the delegations of authority issued thereunder, I hereby authorize the issuance of a guaranty pursuant to Title III, Sections 221 and 222 (b) (2), of the FAA of Fifty Million Dollars (\$50,000,000), assuring against losses of not to exceed one hundred percent (100%) of the loan investment(s) ("Loan") and interest thereon by an eligible U. S. Investor or Investors acceptable to A.I.D. to be provided to Tefahot Israel Mortgage Bank, Ltd. ("Borrower"), a mortgage credit institution in Israel, for the long-term mortgage financing of housing projects.

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

1. (a) The term of the Loan shall not exceed twenty-five (25) years.
(b) The rate of interest payable to the U. S. Investor(s) pursuant to the Loan shall not exceed the allowable rate of interest prescribed by the Administrator pursuant to Section 223(f) of the FAA.
2. A guaranty fee, payable in U. S. dollars, of one-half of one percent (1/2%) of the outstanding guaranteed balance of the Loan per annum shall be paid to A.I.D. by Borrower.
3. The Government of Israel shall provide an unconditional guaranty to A.I.D. against any and all losses by A.I.D. resulting from its guaranty of the Loan or from non-payment of the guaranty fee. Such guaranty of the Government of Israel shall be payable in U. S. dollars.
4. The Government of Israel and the Borrower shall provide satisfactory assurances to A.I.D. that none of the funds provided pursuant to the Loan will be used to finance the construction of housing on territory outside of the pre-June 1967 boundaries of Israel.

5. The loan agreement between the U. S. Investor(s) and the Borrower shall be approved in writing by A.I.D. prior to execution of the A.I.D. guaranty.
6. The maximum and minimum repayment periods and interest rates for sub-loans made by the Borrower, and the maximum cost of housing financed by such sub-loans, shall be approved in writing by A.I.D. prior to execution of the A.I.D. guaranty.
7. The Borrower shall provide satisfactory assurance to A.I.D. that the Loan proceeds shall be deposited in the Bank of Israel where it shall earn interest at a rate not to exceed the rate of interest Borrower is paying on the Loan, plus the guaranty fee, plus a service fee not to exceed 1/2%, and that the Loan proceeds shall not be converted into Israeli pounds until they are required for disbursement pursuant to sub-loans.
8. The guaranty shall be subject to such other terms and conditions as A.I.D. may require.

Assistant Administrator for the
Bureau for Near East and South Asia

Date

Clearance:

NESA/CDE, JStephenson _____
NESA/DP, AWhite _____
NESA/NE, RFriedline _____
A/H, SBaruch _____
CLSC _____

GC,SWStein:veh:11/3/71

STATUTORY CHECKLIST

Israel: TEFAHOT Israel Mortgage Bank, Ltd.

Section 221:

The total face amount of guaranties issued, outstanding at any one time, shall not exceed \$130,000,000, and the projects financed thereunder are self-liquidating housing projects.

Section 222 (b) (2):

The project is a guaranty to a credit institution engaged directly and/or indirectly in financing of home mortgages.

Section 223 (a):

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

Section 223 (f):

The rate of interest allowable to the eligible United States investor to be prescribed by the Administrator will not be less than one-half of one per centum above the current rate of interest applicable to housing mortgages insured by the Department of Housing and Urban Development and it will not be more than one per centum above such rate.

Section 223 (h):

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

Section 238 (c):

The guaranty agreement will cover only lenders who are "eligible United States Investors" within the meaning of this section of the Statute at the time the guaranty is issued.