**Environmental and Social Management Report**

**Mexican Capital Markets Mortgage Financing**

**(ME-L1179)**

1. **Project Description and Background**
   1. The proposed Project establishes a strategic partnership with FHIPO. The objective of the project is to contribute to the consolidation of the first Mexican Residential Mortgage Investment Trust (FHIPO) as a new asset class in the Mexican capital markets that would increase liquidity of residential mortgage originators. FHIPO aims to further break into lower income segments than those currently served by Mexican private credit providers while maintaining prudent mortgage lending criteria.
   2. The Project consists of a 7-year revolving loan of up to US$75,000,000. The Financing is expected to be comprised of an A loan of up to US$75,000,000 to be funded by the IDB, which may be accompanied by a co-loan and/or B-loan of up to US$25,000,000. The A Loan amount shall be adjusted so that the total amount of the Financing (A Loan plus Co-Loan and/or B-loan) will not exceed US$75,000,000. IDB’s support will enable FHIPO to expand the scale of its investments, increasing the amount of residential mortgage portfolios acquired by the trust. This in turn will benefit residential mortgage originators that sell residential mortgages to FHIPO (obtaining access to liquidity and funding diversification to increase their operations) and, consequently, the families that have greater availability to mortgage financing. Finally, investors will also benefit from this project, since it will contribute to a wider availability of impact investment opportunities in the domestic capital markets.
2. **Project Status and Compliance**
   1. Based on Directive B.13 of the Environment and Safeguards Compliance Policy (OP-703), this Project is classified as a financial intermediary and as such is not categorized according to its potential environment and social (E&S) impacts and risks.
   2. FHIPO has confirmed that it is in compliance with Directive B.2 (country laws and regulations) of IDB Environmental and Safeguards Compliance Policy, complying with all applicable legal and regulatory environmental, social, health and safety, and labor (ESHS&L) laws and regulations.
   3. Given the focus of this line on social housing of low purchase price value, combined with national regulation that includes screening of E&S issues during appraisal, this loan is considered low risk (FI-3).
3. **Environmental and Social Risks and Impacts**
4. *Potential risks and impacts associated with FHIPO’s portfolio*
   1. The potential key environmental, social, health and safety, and labor issues and risks associated with this Partnership are mainly those related to the individual characteristics of the mortgage loans acquired by FHIPO. Direct environmental, social, health and safety (ESHS) risks are anticipated to be limited due to the small value of the sub-loans (capped at a maximum of US$50,000). It is estimated that the majority of houses will be located in urban areas.
   2. The ESHS risks and impacts are expected to be minimal. There may be specific ESHS and labor risks and impacts such as: (i) developments located on land which may have contamination such as soil and ground water contamination, which may present a human health risk; (ii) properties that are located on sites of archeological, cultural or historical value; (iii) properties located in areas where current or previous use/activities may result or have resulted in localized environmental problems (i.e. landfills or waste disposal areas, industrial facilities, highways, ports, airports and high voltage transmission lines or substations, etc.). (iv); properties located in areas at high risk to natural hazards, such as tornadoes, hurricanes, floods, or from seismic events, and fires, (v) properties located in areas near important or sensitive environmental areas (e.g. containing threatened or endangered species, tropical rain forests, natural parks, etc.). These risks are assessed under Mexican legislation.
5. **Environmental and Social Management**
6. *FHIPO’s Management of Environmental and Social Risks in Mortgage Lending*

4.1. FHIPO will acquire mortgage portfolios of institutions or entities that declare that they: i) comply with applicable environmental regulations; ii) have rules, guidelines and criteria stablishing the politics in environmental matters for the mortgage portfolio.

4.2. The acquisition of a mortgage portfolio concluded by FHIPO with institutions or entities, must include a declaration or a section in which the transferor expresses by his sole responsibility that the mortgage portfolio meets with the environmental normative applicable to them.

4.3. In regular audits FHIPO, must revise that the transfer agreements entered in to by FHIPO include the declaration referred to in the preceding paragraph.

4.4. FHIPO will present a policy named “Environmental criteria for the acquisition of Mortgage Portfolios” to the Practices Committee for their approval, through which FHIPO will require to comply with the afore mentioned.

1. **Environmental and Social Requirements**
   1. This operation is considered a low risk operation and thus the Bank will require FHIPO to comply with: (i) all applicable Mexican environmental and labor regulatory requirements, (ii) the IDB List of Excluded Activities for Non-Sovereign-Guaranteed (NSG) operations; and (iii) in relation to the acquisition of mortgage portfolios to ensure that the mortgage portfolio complies with: (a) in-country regulations applicable to them; (b) the IDB List of Excluded Activities for Non-Sovereign-Guaranteed (NSG) operations; and (c) FHIPO’s Environmental criteria for the acquisition of Mortgage Portfolios.
   2. The IDB will supervise the environmental and social aspects related to the use of the proceeds of the IDB loan either by an in-house specialist or with external consultants, and if necessary, will require means of enhancing management of impacts and risks.