

**Environmental and Social Management Report**  
**Brazilian Securities Mortgage Securitization Partnership**  
**(BR-L1410)**

**I. Project Description and Background**

- 1.1 The proposed Brazilian Securities Mortgage Securitization Partnership (the “Financing”) would provide Brazilian Securities Companhia de Securitização (“BSEC”), a leading Brazilian mortgage securitization firm wholly-owned by Banco Pan S.A., with an approximately US\$125 million senior secured financing for the acquisition and accumulation of eligible residential and commercial mortgage instruments and real estate loans in Brazil, and their further domestic capital markets securitization or private placement. The Financing is comprised of an up to US\$50 million A-Loan from the Inter-American Development Bank (“IDB”), an up to US\$25 million Co-loan from the China Co-Financing Fund for Latin America and the Caribbean (“China Fund”), and an estimated US\$50 million B-loan to be syndicated among eligible lenders.
- 1.2 The main objective of the proposed Financing is to support securitization of residential and commercial mortgages by BSEC and increase the access to liquidity by private mortgage originators in Brazil. This will, in turn, contribute to the continued development and consolidation of real estate credit securitization in the Brazilian capital markets. Private mortgage lenders and real estate developers in Brazil face limited access to adequate-tenor financing, that leaves them vulnerable to market volatility and asset-liability maturity mismatches and hampers the continued growth of their activities. The issuance of Mortgage-Backed Securities (“MBS”) in the domestic capital markets is envisaged to consolidate as a significant and cost-efficient source of liquidity and funding diversification to private mortgage originators to continue expanding their lending to families and businesses and contributing to address the growing demand for real estate financing resulting from Brazil’s economic and demographic trends. By providing stable and long-term financing to BSEC, otherwise unavailable to securitization companies in the Brazilian market, IDB supports the sustained development of its residential and commercial mortgage acquisition activity for further securitization or private placement, thereby contributing to increasing the relevance of MBS in the domestic capital markets.
- 1.3 IDB has established under a previous loan agreement with BSEC a set of environmental and social screening criteria for residential and commercial property acquisition. This checklist will remain in effect. Additionally, IDB will provide an incentive trigger for BSEC to purchase mortgages that can obtain sustainable building certification (LEED or equivalent) by a recognized green building audit firm or meet green performance criteria established by IDB.

## **II. Project Status and Compliance**

- 2.1 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.
- 2.2 BSEC 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.
- 2.3 Given the focus of this credit line on mortgage securitization and combined application of an existing E&S screening procedures, this Financing is considered low risk (FI-3).

## **III. Environmental and Social Risks and Impacts**

### ***A. Potential risks and impacts associated with BSEC's portfolio***

- 3.1 The potential key environmental, social, health and safety, and labor issues and risks associated with this Financing are mainly those related to the individual characteristics of the mortgage loans purchased. Indirect environmental, social, health and safety (ESHS) risks are anticipated to be limited due to the nature of the assets, Brazil's regulatory process, and the screening BSEC applies in identifying mortgages for purchase.
- 3.2 The ESHS risks and impacts that may apply would relate to the individual location of land development, residential or commercial properties. BSEC's business model relies on purchasing mortgages or real estate receivables in primarily urban, well developed areas. Under previous loans, the concentration of purchases was in the major cities in the Southeast Region of Brazil (66%), dominated by Sao Paulo, followed by the Northeast Region (14%). Where present, risks could include, for example: (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; and (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 mitigated through BSEC's screening process.

## **IV. Environmental and Social Management**

### ***A. BSEC's Management of Environmental and Social Risks in Mortgage Lending***

- 4.1 IDB's first loan to BSEC was disbursed in 2006, and extended in 2010. Under the recent extension, an environmental and social screening process was implemented as part of BSEC's existing appraisal review. Under the procedures established, the appraiser

evaluates each individual mortgage that BSEC purchases and assesses a set of environmental and social issues, designed both for residential and commercial real estate. The evaluation considers issues specific to contaminated land, previous land use, location, natural hazards, and services (water, sewage, etc.) access, among others. When any issue is identified, the mortgage is excluded from purchase. The process is used by all 27 appraisal companies that BSEC employs, who jointly conduct between 300-600 appraisals a month. Following BSEC's lead, other mortgage securities firms and financial institutions have adopted similar procedures.

- 4.2 Under this new loan, IDB will be introducing an incentive scheme for the purchase of mortgages that include a green component. Under this arrangement, BSEC will be permitted to purchase higher value residential mortgages up to a defined threshold (for houses not qualifying as green, the property value cap is lower), where in addition to the basic E&S requirements, evidence can be provided that the property (or development) has obtained a sustainable building certification (LEED or equivalent) by a recognized green building audit firm or meets certain green eligibility requirements as defined by IDB and segregated by commercial, large-scale residential and small-scale residential. For commercial mortgages, an incentive has also been established to either obtain LEED or equivalent green building certification or meet a wider set of IDB-defined green eligibility requirements. BSEC can increase the portion of the portfolio that is dedicated to commercial mortgages from 80% to 100% if a specific percentage of the commercial mortgages amount in the portfolio is related to properties that meet the green eligibility requirements alongside the basic E&S requirements.

## **V. Environmental and Social Requirements**

- 5.1 For this operation which involves mortgage purchases for both residential and commercial properties, IDB will require BSEC as part of the Loan Agreement to:
- (i) Comply with all applicable Brazilian ESHS&L regulatory requirements, and in relation to the acquisition of real estate credits, to ensure that each loan complies with: (a) in-country regulations; (b) the IDB List of Excluded Activities for Non-Sovereign-Guaranteed (NSG) operations; and (c) the Fundamental Principles of the Rights at Work.
  - (ii) For all mortgages purchased, continue to apply the existing environmental and social procedures described in paragraph 4.1. Additionally, implement the green eligibility criteria for residential loans above the agreed values set with IDB, and for commercial mortgages ensure that a specified percentage of the commercial mortgage portfolio's amount meets the eligibility requirements under the scenario that commercial mortgages exceed 80% of the total portfolio value. Submit to IDB a final form that incorporates both the basic E&S procedures, and the eligibility requirements for those properties that qualify as 'green'.
  - (iii) Assign staff responsibility to oversee the E&S procedures defined, and ensure that the designated staff member take part in training course on green building/LEED design for residential/commercial buildings. Agree in advance with IDB on the specific course selected.

- (iv) Present an Annual Environmental and Social Compliance Report (ESCR) with information on the portfolio, and any particular risk issues identified during screening and mitigation measures agreed with clients.
- 5.2 The IDB will supervise the environmental and social aspects related to the use of the proceeds of the Financing either by an in-house specialist or with external consultants, and if necessary, will require means of enhancing management of impacts and risks.