

PROJECT ABSTRACT

PROJECT NUMBER:	BR- L1032
PROJECT NAME:	BRAZILIAN MORTGAGES –BRAZILIAN SECURITIES MORTGAGE WAREHOUSE FACILITY
TOTAL PROJECT COST:	APPROXIMATELY US \$ 300 MILLION (EQUIVALENT IN LOCAL CURRENCY).
IDB PARTICIPATION:	APPROXIMATELY UP TO US \$ 75 MILLION
DEPARTMENT:	PRIVATE SECTOR DEPARTMENT
STATUS:	APPROVED BY PSCC
APPROVAL DATE:	NOVEMBER 5, 2004

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Project Description:

The transaction consists of a collateralized revolving credit facility (Warehouse Facility) to be made to Brazilian Mortgages (BM) and Brazilian Securities (BS) to finance the origination, acquisition and accumulation of housing finance instruments.

The Companies form part of the Ourinvest Group, a financial group formed by fourteen companies owned, directly and indirectly, by Ourinvest Participações S.A. (“Ourinvest Participações”), the holding company. BM is a real estate financing company that engages in acquiring mortgage portfolios from construction companies to hold in portfolio for further securitization, providing mortgage financing or home equity lines to individuals for home improvements, and structuring real estate investment trusts. BS is engaged in issuing CRIs and can act as agent to securitize credits originated by mortgage companies, savings and loan institutions, banks, developers as well as those originated by other securitization companies.

Project Benefits:

The Bank’s participation in this transaction will contribute to the consolidation of the primary and secondary mortgage markets. Such consolidation would expand the number of middle and low-income families to have access to affordable housing or to make necessary improvements to their existing ones.

It contributes to the objectives of diversification of financing sources and consolidation of the domestic capital markets as the primary provider of funds. Such efforts should increase competitiveness of the mortgage market in Brazil and improve the conditions of the housing sector. Market growth should translate into further standardization of loan documentation, higher mortgage credit quality standards and improved reporting systems. These are all necessary elements for the development of a sound secondary mortgage market

IDB Participation:

The Project is consistent with the strategy mapped out in the Bank's Country Paper for Brazil GN-2104-1 (August 2000) and its subsequent update GN-2250 June 2003). The four primary goals for the Bank in Brazil during the 2000-2006 period are: i) promote reform and modernization of the state; ii) promote increased competitiveness, access to markets, modernization of the economy by strengthening the financial system and rehabilitation of basic infrastructure; iii) reduced social and regional inequalities and improved quality of life; and iv) address issues related to environmental management and natural resources. This transaction is directly consistent with the second and third goals. In particular, the transaction is highly consistent with the Bank's plan to help improve economic efficiency by financing private sector projects through direct financing and/or the use of partial risk and credit guarantees.

The proposed project complements a US\$34 million loan from the IDB to the state of São Paulo, as the first phase of a project to finance home purchases and improvements by low-income city residents living in downtown tenements (BR0298 -Tenement Program in the State of Sao Paulo). Furthermore the project also complements the Sao Paulo Downtown Renewal Program (BR031 -Downtown Sao Paulo Rehabilitation Procentro) to promote economic and social development in downtown Sao Paulo.

Environmental and Social Strategy¹

A. Project Status and Compliance

BM/BS have a General Policy on Environmental Risk Management, which describes in detail the procedures associated with assessment and management of environmental, social, and health and safety impact and risks associated to their mortgage portfolio. This Policy includes (a) a due-diligence process preceding the origination and/or acquisition of real state properties, incorporating an Environmental Data Sheet, and Phase I and Phase II Environmental Audits and a Corrective Action Plan, as needed, (b) negotiation process with the client, sub-borrowing companies and/or partners to assure compliance with *BM/BS* Environmental Policy, (c) environmental monitoring of the properties during the holding period, including assurance of appropriate emergency and contingency plans and procedures. There is a committee formed by three (3) full time *BM/BS* employees that is in charged of assuring compliance with the environmental guidelines and procedures prescribed in the Environmental Policy.

¹ This Environmental and Social Strategy (ESS) is being made available to the public in accordance with the Bank's Policy on Disclosure of Information. The ESS has been prepared based primarily upon information provided by the project sponsors and does not represent either the Bank's approval of the project or verification of the ESS's completeness or accuracy. The Bank, as part of its due-diligence on the feasibility of the project, will assess the environmental and social aspects. This assessment will be presented in the project Environmental and Social Management Report, prepared by the Bank, and will be made available to public prior to consideration of the project by the Bank's Board of Executive Directors.

BM/BS is currently complying with the environmental requirements associated with the Inter-American Investment Corporation (IIC) operation, and reports compliance with all applicable Brazilian environmental, health and safety, and labor laws.

Similarly, *BM/BS* reports that its facilities are compliant with all relevant environmental and safety legal requirements, and that non-discriminatory employment and credit practices are institutionalized.

B. Environmental, Social and Health and Safety Issues

Based upon the nature of this Project, there should be limited direct environmental, social, or H&S impacts or risks, and thus a limited environmental assessment is required. The potential key environmental, social, health and safety, and labor issues and risks associated with the Project could include (i) the *BM/BS*' environmental credit risks and (ii) IDB Reputation Risks associated to *BM/BS* and sub-borrowers' environmental, social, H&S, and/or labor practices

Environmental Credit Risks refer to potential negative effects on *BM/BS* ability to repay the IDB because of: (i) risks due to *BM/BS*' credit programs associated with the reduction in mortgage asset values or property guaranties/securities due to environmental or social issues (e.g. environmental liability); and (ii) risks associated with *BM/BS*' facilities and operations, such as environmental liabilities in their buildings/offices due to PCB transformers, asbestos, lead paint, etc. or *BM/BS* employees having occupational health and safety problems due to working conditions/environment (e.g. inadequate emergency preparedness, lack of fire exits, etc).

Reputation Risks are associated with *BM/BS* involvement with projects, companies or activities considered unacceptable to the IDB such as (i) goods (companies) which may be considered to be non-eligible by IDB (see Exclusion List Annex I); (ii) *BM/BS*' finance application and analysis process that is not equitable, fair, and unbiased in terms of social factors (e.g. gender, age, sex, ethnicity, or cultural heritage etc.); and (iii) significantly deficient labor practices by *BM/BS* or sub-borrowers.

C. Strategy for the Environmental and Social Due Diligence

The Bank, as part of the due diligence process, will analyze the environmental and social aspects of the Project and establish environmental, social, health and safety, and labor requirements in the Facilities for review and approval by the Bank's Committee on Environment and Social Impact (CESI). The environmental and social due-diligence will specifically include the components listed below:

1. An assessment of *BM/BS*' compliance status with the applicable country (national, state, municipal) environmental, social, H&S, and labor regulatory requirements;
2. An assessment of the sufficiency of *BM/BS* "General Policy on Environmental Risk Management" to appropriately appraise, monitor, and manage environmental and social liabilities, risks and/or impacts of

loan/mortgage operation, or determine the need to implement an Environmental Management System (EMS). Current procedure should at a minimum be able to (i) include in the loan/mortgage application and analysis process (i.e., underwriting guidelines and risk review process) consideration of environmental or social aspects, and assess potential environmental financial/credit risks and liabilities that may be associated with the properties, including as a minimum issues listed in Annex II, (iii) determine sub-borrowing Companies' eligibility according to IDB's excluded activities and compliance with applicable environmental, health and safety and labor regulatory requirements in Brazil, (iii) when feasible apply loan/mortgage insurance to cover environmental issues (e.g., soil and ground water contamination, lead based paint, asbestos, polychlorinated biphenyl compounds) and natural hazards (e.g., fire, tornadoes, hurricanes, floods, seismic events), and (iv) count with mortgage credit officers qualified and trained to identify potential environmental, social, H&S, and labor issues/liabilities.

3. An evaluation to assure an appropriate inventory of present environmental and H&S liabilities in *BM/BS*' facilities and operations, and if they exist, assess the adequacy of the action plan to properly resolve them;
4. An evaluation to ensure that *BM/BS* has adequate H&S and Contingency Plans and procedures (i.e. emergency response programs, building evacuation drills, etc) including their technical adequacy, adequate level of training, and sufficient resources to ensure adequate implementation.
5. An evaluation of the *BM/BS*' and sub-borrowing companies compliance with the Fundamental Principles and Rights at Work and with any other international labor organization conventions and treaties which have been ratified by Brazil, to determine presence of any existing major labor problems associated with *BM/BS*, and whether they practice fair and unbiased labor practices related to sex, age, ethnicity, cultural heritage, and collective bargaining. *BM/BS* must have (or develop) written procedures to assure adequate hiring procedures and treatment of employees.
6. An assessment of the adequacy of *BM/BS*' procedures to ensure that loan/mortgage and/or foreclosure procedures, finance application and analysis process is equitable, fair, and unbiased in terms of social factors (e.g. age, gender, cultural heritage, etc).