

## PROJECT ABSTRACT

PROJECT NUMBER:	BR- L1032
PROJECT NAME:	BRAZILIAN SECURITIES MORTGAGE INSTRUMENTS 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

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### Project Description:

The transaction consists of a collateralized credit facility (“Warehouse Facility”) to be made to Brazilian Securities Companhia de Securitização (“BSec”) to finance the origination and accumulation of mortgage instruments for further securitization. The Warehouse Facility will be funded by a seven-year loan provided by the Bank. The Warehouse Facility will provide BSec the financial means to expand its participation and play a deeper role in the real estate finance market.

The Project is sponsored by Ourinvest Group and Caisse de Dépôt et Placement du Québec (“CDP”) through its Brazilian subsidiary Cadim Brasil Holdings Ltda and involves the participation of two of the main business companies where both groups have partnered; BSec and sister company Brazilian Mortgages (“BM”). Since 2002 CDP, through Cadim Brasil, holds 50% of the shares of BSec and of BM, while Ourinvest Group, through Ourinvest Real Estate Participações S.A., holds the remaining 50% participation in each company.

### Project Benefits:

The Bank’s participation in this transaction will contribute to the consolidation of the primary and secondary mortgage markets in Brazil by supporting the role of the capital markets as the primary source of mortgage financing. Such consolidation should improve market conditions for home and commercial real estate ownership and home improvements. Ultimately, the mobilization of resources would affect positively the affordability of mortgage financing in Brazil.

It contributes to the objectives of diversification of financing sources and consolidation of the domestic capital markets as the primary provider of funds for mortgage financing. Such efforts should increase competitiveness of the mortgage market in Brazil and 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 Management Report (ESMR)

#### *Environmental and Social Compliance:*

BM and BSec as a group 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 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 and BSec Environmental Policy, and (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 and BSec employees that is in charged of assuring compliance with the environmental guidelines and procedures prescribed in the Environmental Policy. This General Policy on Environmental Risk Management complies with the environmental requirements of Caisse de Dépôt et Placement du Québec (CDP). Additionally BM and BS are 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.

#### *Environmental and social impacts and risks:*

The potential key environmental, social, health and safety, and labor risks associated with the Project include (i) BSec' environmental credit risks and (ii) IDB Reputational Risks

associated to BSec's environmental, social, H&S, and/or labor practices. Environmental Credit Risks refer to potential negative effects on BSec's ability to repay the IDB because of (a) risks due to BSec's credit programs associated with the reduction in mortgage asset values or property guaranties/securities due to environmental or social issues (e.g. environmental liabilities); and (b) risks associated with BSec's facilities and operations, such as environmental liabilities in their buildings/offices due to PCB transformers, asbestos, lead paint, etc. or BSec's employees having occupational health and safety problems due to working conditions/environment (e.g. inadequate emergency preparedness, lack of fire exits, etc) or deficient labor practices. Reputational risks are associated with BSec's involvement with projects, companies or activities considered unacceptable to the IDB such as (a) goods (companies) which may be considered to be non-eligible by IDB (e.g. pornography, exploitation of minors, trade of wildlife, etc specially referring to commercial mortgages); and (b) BSec's HHRR practices and finance application and analysis process that are not equitable, fair, and unbiased in terms of social factors (e.g. gender, age, ethnicity, or cultural heritage, etc.)

#### *Environmental and Social Management:*

BSec does not have a procedure to assess environmental risks associated with mortgage acquisition. Even though the IDB recognizes that the risks are small since the exposure time of BSec to a potential "contaminated" assets acquired under the different mortgage instruments would be no more than 12 months, BSec has agreed to develop and apply an Environmental Mortgage Procedure, that would incorporate environmental and social aspects as part of their current appraisal procedure (Laudo de Avaliação), in a similar fashion BM currently does during the mortgage origination processes.

Credit risks associated with BSec offices and personnel are also very limited, since BSec only has a total of 14 employees and it is located within a building belonging to Ourinvest, occupying one tier of the building. The building is inspected by the fire department on a yearly basis, and the training and evacuation drills are certified every year. All the floors had updated fire extinguishers, and the fire exits have double doors with a chamber connected to an exhaust, as it is required by the Brazilian ABNT norm. The facilities insurance policy as well as the fire department permits and inspection reports are on PRI/ESU files. Ourinvest facilities are wheelchair accessible.

Reputation risks associated with BSec providing mortgage financing for activities potentially damaging BSec reputation (transferable to the IDB) were considered to be minor, and mostly related to the commercial portion of their mortgage portfolio. As part of the commercial mortgage appraisal process, BSec will apply an agreed environmental exclusion criteria.

Even though BSec has ethic considerations on its credit policy and criteria, non-discriminatory credit or HHRR practices are not specifically articulated. Since BSec is such a small organization, it is difficult to determine a non-discriminatory pattern. However no evidence of discriminatory practices were found. The gender distribution is 70/30 males to females; out of the 14 employees, the four directors are male, and the subsequent managerial level is composed of two female and two male managers. No

ethnic, religious, or cultural heritage data was provided, but this is standard practice in highly racially integrated countries like Brazil. As part of the action Plan non-discriminatory practices will be documented in writing as part of their ethics policy, and best efforts will be made to assure female participation at higher hierarchical levels of BSec organization.

*Environmental and Social Requirements:*

The Bank will require as part of the loan agreement that BSec (i) complies with all applicable environmental, social, health and safety, and labor Brazilian regulatory requirements; (ii) prior to financial closure, develop and implement an Environmental Mortgage Procedure, in form and substance satisfactory to the IDB; and (iii) prior to financial closure, develop an Environmental, Health and Safety Action Plan, in form and substance satisfactory to the IDB, including at a minimum actions associated to credit and human resource non-discriminatory policies, and disclosure of BSec's environmental practices information.

Since the disbursements will be provided on a request basis and for amounts of no less than US\$ 5 million at a time, every time the disbursed amount reaches US\$ 25 million (or a multiple thereof), the IDB will require an Environmental and Social Compliance Certificate (ESCC) issued by an independent consultant stating that all the mortgages acquired with the previous US\$25 million (i) were originated according to the Environmental Mortgage Procedure, (ii) all properties (mortgages) comply with the predetermined environmental and social eligibility criteria, (iii) all commercial mortgages comply with the agreed environmental exclusion list, and (iv) BSec is compliant with the environmental and social provisions of the legal agreement.

The Bank will monitor the environmental, social, health and safety, and labor aspects of the operation via internal Bank supervision actions (e.g. site visits, review of documentation, etc.) and may use an external independent environmental consultant. In addition, if needed, the Bank will have the right to perform an independent environmental, health and safety audit.