

ENVIRONMENTAL AND SOCIAL MANAGEMENT REPORT

CREDIFAMILIA (CO-L1100)

I. Project Description

- 1.1. The proposed project (“the Project”) consists of an OMJ-guaranteed loan to Credifamilia, a new Commercial Finance Company specializing in low-income mortgage lending in Colombia. The financing guaranteed by OMJ will allow Credifamilia to expand its portfolio of mortgage loans for new houses to low-income families. The transaction consists of a loan for the Colombian peso equivalent of US\$5 million that will be made by the Inter-American Investment Corporation (“IIC”) with funds it is raising in the local market and will be fully guaranteed by OMJ. The IIC loan/OMJ guarantee will be secured by a portfolio of mortgage loans
- 1.2. Credifamilia’s objective is to extend mortgage loans to low-income individuals by applying efficient technologies to mortgage lending based on elements from the Mexican SOFOL model in combination with an origination system based on close partnerships with large construction companies – which are Credifamilia’s shareholders – in order to open up financial resources to low-income homebuyers. Credifamilia will open sales offices within large construction projects so it can strengthen its relationship with customers and perform high quality risk management.
- 1.3. To become eligible for a mortgage loan from Credifamilia, families must meet the following requirements: (i) be formally employed, self employed, informally employed or retired; and to qualify for the government housing subsidy must (ii) live in a household with two or more people; (iii) monthly income must not exceed 4 minimum wages; (iv) not an existing homeowner; (v) not having benefited from previous home buyer subsidies and (vi) not have a right to receive other government subsidies for housing. Mortgage loans range from the minimum amount of 10 Minimum Wages or COP5.4 million (US\$3,000) to a maximum of 94.5 Minimum Wages or COP50.6 million (US\$28.464) with an average amount of COP32 million (US\$17,000).
- 1.4. As a newly established company, Credifamilia (www.credifamilia.com) does not have an active loan portfolio yet, but with the funding of the IDB and of other lenders (e.g. FINDETER), Credifamilia envisions to build a mortgage portfolio with a value of COP363 billion (US\$204 million) in 2015 and COP 1,162 billion (US\$653 million) in 2020. Although a significant number of loans will be taken off Credifamilia’s balance sheet through securitization (36% in 2015 and 50% in 2020), it will remain responsible for managing the total loan portfolio. Credifamilia will start operations in Bogotá and soon expand to major cities like Bucaramanga, Cali and Medellín.

II. Project Status and Compliance

- 2.1. The Environmental and Social Strategy for the Project was presented and approved on October 6, 2010 by the Environmental Safeguards Review team, no further action was required.
- 2.2. Based on Directive B.13 of the Environment and Safeguards Compliance policy (“Environment Policy”), and given this is a financial intermediary, this Project was not categorized.
- 2.3. Credifamilia has confirmed that it is in compliance with Directive B.2 (country laws and regulations) of the Environment Policy, complying with all applicable legal and regulatory environmental, social, health and safety, and labor laws and regulations including permits and authorizations.

III. Environmental and Social Impacts and Risks

A. *Environmental, Social, Health & Safety risks associated with Credifamilia’s portfolio*

- 3.1. Due to the nature of the activities financed under the transaction (mortgage loans for to low-income families in Colombia), this operation is considered as a low risk financial intermediaries operation.
- 3.2. The operation is expected to generate positive social impacts as it will provide mortgage finance for affordable, high-quality housing to low-income families in Colombia that are normally deprived from housing credit.
- 3.3. The Environmental, Social, Health & Safety (ESHS) risks and impacts related to the sub loans are considered to be minimal, in particular due to the limited size of individual sub loans provided by Credifamilia. The housing projects to which Credifamilia commits itself as mortgage provider, however, may be exposed more significant ESHS risks and impacts resulting from unsafe and/or unlawful sites, building facilities, poor working conditions, and disposal of material used for construction as well as exposure to as natural disasters, such as earthquakes and landslides. These risks can be mitigated by Credifamilia by means of an adequate screening system for potential housing projects.
- 3.4. Credifamilia has stated that it has no outstanding ESHS concerns, through involvement in projects, companies or activities considered unacceptable to the IDB that could potentially generate significant public opposition or concerns. Credifamilia has also stated that its finance application and analysis process is equitable, fair, and unbiased in terms of social factors (e.g. gender, age, ethnicity, or cultural heritage). On the contrary, non-discrimination is one of Credifamilia’s company values.

B. *Environmental, Social, Health & Safety risks associated with Credifamilia’s facilities and Human Resources practices*

- 3.5. The risks associated with Credifamilia’s facilities and operations, such as environmental liabilities in their offices or employees having occupational health

and safety problems due to working conditions are considered to be minimal. Credifamilia's head office is located in Bogotá.

- 3.6. Credifamilia has stated that it has no material health issues (including legal claims) and does not have any material employee or labor disputes.

IV. Environmental and Social Management

- 4.1. Credifamilia does not have a specific or structural procedure in place to evaluate the environmental and social risks and impacts associated with individual loans or its loan portfolio. However, all housing projects presented by construction companies are submitted to a thorough evaluation by Credifamilia focusing on the construction company's track record and on the project details (legal permits, construction quality of the units, location, demographics, area surroundings, relevant studies and documents from local authorities, etc) including some environmental and social aspects of the proposed building. Credifamilia also requires all projects to comply with relevant Colombian laws and regulation to be eligible for financing. Additionally, Credifamilia has a Corporate Governance Code and a Code of Ethics outlining the institution's relations with investors, clients and other stakeholders.
- 4.2. At the moment, there is not a specific person within the organization of Credifamilia who carries responsibility for coordinating environmental and social risk management.

V. Environmental and Social Requirements

- 5.1. As part of the Loan Agreement between the IDB and Credifamilia, the IDB will require that Credifamilia comply with: (i) all applicable Colombian ESHS, and labor regulatory requirements, (ii) IDB List of Excluded Activities for Non-Sovereign-Guaranteed (NSG) operations and (iii) the Fundamental Principles of Rights at Work (together referred to as the IDB Environmental and Social Requirements).
- 5.2. The IDB will require that Credifamilia develop and implement an appropriate Environmental Procedure (EP) to be applied to its housing project selection process in order to assure compliance with IDB policy and requirements. The EP will include at least (i) a checklist to evaluate housing projects on a number of key ESHS eligibility criteria and (ii) a simple mechanism for monitoring and reporting on the loans.
- 5.3. The IDB will also require Credifamilia to assign a coordinator who will bear responsibility for implementing and keeping operational the ESP.

The IDB will supervise the environmental and social aspects of the Loan Agreement either by an in-house specialist or with external consultants, and require Credifamilia to present environmental and social compliance reports in form, content and frequency satisfactory to the IDB.