

**Environmental and Social Management Report**  
**La Hipotecaria Regional Housing Finance**  
**(RG-L1032)**

**I. Overview**

- 1.1 The proposed transaction would provide Banco La Hipotecaria de Panama, S.A., La Hipotecaria, S.A. de C.V. and La Hipotecaria de Colombia, S.A. (together “La Hipotecaria” or “LH”) with a Regional Housing Finance (“RHF”) (the “RHF” or the “Financing”).
- 1.2 The purpose of the Facility is to support LH in broadening and deepening the scope of its main business area in residential mortgage financing to lower and middle income individuals in El Salvador, Panama and in the future, Colombia.
- 1.3 The Facility would be composed of: (i) 7-year tenor, revolving and secured A Loans of approximately US\$15 million, in the aggregate, for LH to be funded by IDB; (ii) subject to market demand, and LH’s financing needs, a B Loan of approximately US\$10 million to be syndicated by the IDB; and (iii) local currency Partial Credit Guarantees (“PCG”) in Colombia for up to COP9.5 billion.
- 1.4 This represents the third financing between IDB Group and La Hipotecaria. In 2007, the IIC provided a US\$20 million long-term loan to LH and in 2010 La Hipotecaria received from the IIC a long-term loan for up to US\$10 million to finance the growth of their mortgage portfolio in El Salvador and Panama.

**II. Project Background**

- 2.1 LHP was founded by John Rauschkolb, current CEO, in 1996 and began operations in 1997 as a financing company licensed by the Ministry of Commerce of Panama<sup>1</sup>. In June 2010, LHP was granted a general banking license in Panama, and is regulated by the Superintendencia de Bancos de la Republica de Panama. LHP also has a license issued in Panama to offer and manage a trust business. In 2002, LHES was founded as a Sociedad Anonima under the Commerce Code of the Republic of El Salvador. In 2007, La Hipotecaria de Colombia, S.A. (LHC), a Sociedad Anonima, was created under the laws of the Republic of Colombia with the aim of geographical diversification. LHC started operations in May 2011. LHP, LHES and LHC are subsidiaries of La Hipotecaria Holding Inc. (LHHI). LHHI principal shareholders are Grupo ASSA, S.A., and the International Finance Corporation, (IFC). Further information can be found in [www.lahipotecaria.com](http://www.lahipotecaria.com) , [www.assanet.com](http://www.assanet.com) and [www.ifc.org](http://www.ifc.org).
- 2.2 La Hipotecaria consistently approves mortgage loans with an average loan size, per mortgage of approximately \$24,700. The majority of La Hipotecaria’s clients are first-time home buyers who are purchasing homes whose values range from approximately \$15,000 to \$50,000. La Hipotecaria provides long-term residential mortgage financing in

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<sup>1</sup> LHP has a financial license issued by the Dirección de Empresas Financieras del Ministerio de Comercio e Industria de la Republica de Panama (Ministerio de Comercio) being regulated by the Law No. 42 for the operations of financial companies.

United States Dollars to qualified clients in the middle and middle-lower income sectors except for the case of Colombia in which La Hipotecaria will provide financing in local currency. Furthermore, La Hipotecaria is a pioneer in the creation of investment-grade mortgage-backed securities which it offers through local securities exchanges to local institutional investors, while retaining servicing rights on all originated mortgage loans.

### **III. Project Status and Compliance**

- 3.1 Based on Policy Directive B.13, and given that this is a financial intermediary project, this operation was not categorized.
- 3.2 La Hipotecaria 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 laws and regulations including permits and authorizations.

### **IV. E&S Risks**

- 4.1 The potential key environmental, social, health and safety, and labor issues and risks associated with this Facility are mainly those related to the individual characters of the mortgage loans. Direct environmental, social, health and safety (ESHS) risks are anticipated to be limited due to the size of loans (US\$25,000 on average) and the assessment process conducted by internal and independent appraisals as part of the mortgage approval process.
- 4.2 In general terms, mortgage investments have the potential to generate environmental credit risks. These refer to potential negative effects on La Hipotecaria's ability to repay the IDB because of: risks due to La Hipotecaria's credit programs associated with reduction in mortgage asset values or property guarantees/securities due to environmental, social, health and safety (ESHS) issues (e.g. environmental liabilities) or risks due to increased probability of non-repayment of loan due to environmental and social issues (e.g. law suits, fines, etc) however these risks are considered minimal, and mainly related to the location of the property being mortgaged.
- 4.3 More specifically, these may include:
  - i) Potential impacts on properties located in areas of previous use activities that may result in localized environmental problems, such as abandoned landfills or waste disposal areas, industrial facilities, etc.
  - ii) Potential impacts on properties located in areas susceptible to natural hazards, such as hurricanes, floods, seismic events, and fires.
  - iii) Potential discrimination and barriers for an equitable process of providing the mortgages taking into consideration ethnicity, sex, religion, age, etc
- 4.4 No relevant risks associated with La Hipotecaria facilities and operations, such as environmental liabilities in their offices due to asbestos, lead paint, etc. or La Hipotecaria employees having occupational health and safety problems due to working conditions (e.g. inadequate emergency preparedness, lack of fire exits, etc) have been identified.

## **V. E&S Risk Management Capacity**

- 5.1 La Hipotecaria assesses the compliance with applicable environmental related in-country regulations (i.e. land use and construction permits, water discharge approval, environmental authorization when applicable, etc.), which assessment is embedded in the mortgage application process. Colombian legislation has high standards for construction activities regulating the use of dangerous materials (lead paint and asbestos) and regulates the location of new developments. The regulations in Panama and El Salvador do not regulate the use of lead paint and asbestos.
- 5.2 La Hipotecaria does in-house appraisals for all new home originations and for around 75% of all refinances. The remaining 25% is made by independent approved appraisers.
- 5.3 The appraisals, consists on an inspection format and a valuation report that include some basic information on the location of the property such as the adequacy of the site and/or industrial contamination/waste from adjacent or previous land uses, susceptibility to certain natural hazards such as floods, materials used for construction, supervise the presence of hazardous materials such as asbestos or lead paints and the existence of basic services such as water, sewage and electricity.
- 5.4 La Hipotecaria practices periodically inspections to projects during the construction phase to make sure they are being developed according to the appropriate standards and requirements.
- 5.5 La Hipotecaria develops an Annual Environmental Report for the IIC in which La Hipotecaria has to inform about their investment portfolio, the environmental trainings and compliance of their projects with the environmental and social regulations as well as health, safety and labor issues.

## **VI. Environmental and Social Requirements**

- 6.1 This operation is considered a low risk operation and thus the Bank will require La Hipotecaria to comply with: (i) all applicable country environmental, social, health and safety, and labor regulatory requirements, and (ii) the IDB List of Excluded Activities for Non-Sovereign-Guaranteed (NSG) operations.
- 6.2 The IDB will supervise the environmental and social aspects of the Loan Agreement by an in-house specialist, and require La Hipotecaria to present environmental and social compliance reports in form, content and frequency satisfactory to the IDB.