AN INTRODUCTION TO THE BRAZILIAN REAL ESTATE FINANCE AND SECURITIZATION MARKETS

Special Edition

Sponsored by:
# Table of Contents

1- Introduction ................................................................................................................................................ 3

2- The Brazilian Real Estate Finance Market ................................................................................................ 4

   2.1- The Household Finance System (Sistema Financeiro da Habitação, “SFH”) ..................................... 4

      2.1.1- System Liabilities ........................................................................................................................ 5

      2.1.2- System Assets .............................................................................................................................. 6

   2.2- The Real Estate Finance System (Sistema de Financiamento Imobiliário, “SFI”) ..................... 7

      2.2.1- System Liabilities ........................................................................................................................ 8

      2.2.2- System Assets .......................................................................................................................... 10

3- The Brazilian Real Estate Securitization Market ............................................................................... 15

   3.1- Introduction ........................................................................................................................................ 15

   3.2- Legal and Regulatory Framework ................................................................................................. 16

   3.3- Transaction Structures ................................................................................................................... 17

      3.3.1- Residential Credits .................................................................................................................. 17

      3.3.2- Corporate Credits .................................................................................................................... 18

   3.4- Market Participants .......................................................................................................................... 20

      3.4.1- Securitization Companies ........................................................................................................ 20

      3.4.2- Originators ................................................................................................................................ 21

      3.4.3- Investors .................................................................................................................................... 21

4- Tax Considerations - Prepared by PricewaterhouseCoopers ............................................................. 22

5- Conclusion ................................................................................................................................................ 25

6- Glossary of Terms ................................................................................................................................ 26
1- INTRODUCTION

Following on the adage that “real estate is a local business all over the world”, this report introduces and describes the most salient features of real estate finance and securitization markets in Brazil, both of which are receiving increasing attention from investors across the globe. It begins with a discussion of the two finance systems currently in place and follows with an overview of the securitization market, including aspects of the legal and regulatory framework, the financial structures used and market participants. Whenever possible, supporting data are presented in tables and charts. A special section prepared by PricewaterhouseCoopers presents tax considerations relevant to investors in these markets. The last several pages contain a glossary of terms peculiar to the Brazilian real estate finance and securitization markets that readers may find useful.
2- THE BRAZILIAN REAL ESTATE FINANCE MARKET

The Brazilian real estate finance market is comprised of two systems that operate concomitantly: the Household Finance System, that dates back to the mid 1960’s and the ten year old Real Estate Finance System.

2.1- The Household Finance System
(Sistema Financeiro da Habitação, “SFH”)

The SFH is a special segment of the Brazilian National Finance System. Law 4,328 established the system in 1964 and Law 5,170 modified it two years later. Together, these two laws created new institutions as well as financial and legal concepts that constituted the system’s foundation. Its central pillar was the National Housing Bank (Banco Nacional da Habitação, “BNH”), that was charged with regulating and providing policy orientation for the country's housing market. One of its main responsibilities was to establish the basis for funding the SFH’s lending activities, including the definition of borrowing terms such as interest, payment rules and guarantees. Also authorized were government and private sector savings and loans institutions (members of the Brazilian Savings and Loans System, Sistema Brasileiro de Poupança e Empréstimo, “SPBE”) and real estate companies (sociedades de crédito imobiliário) that together would act as the BNH’s main market agents.

These institutions could raise funds through borrowings directly from the BNH, two instruments created at this time, savings accounts (caderneta de poupança) and mortgage notes (Letras Hipotecárias), and the worker’s severance fund (Fundo de Garantia do Tempo de Serviço, “FGTS”), a savings fund into which employers are required to deposit 8.0% of their employees’ monthly salaries and initially managed by the BNH.

Notoriously, the laws also created monetary correction, an indexation mechanism intended to protect the value of long term loans from the corrosive effects of inflation. Monetary correction was used throughout the entire SFH, being applied to readjust loans as well as rates of interest offered on the system’s principal sources of funding. It was also widely used in the broader economy. Notably, minimum wage adjustments were indexed to monetary correction.

In 1983, the principle of maintaining matched asset-liability indexation throughout the system suffered a major rupture. Due to the decline of salary levels and the increased default rates that threatened the system, the government readjusted installment payments by 80.0% over the minimum wage adjustment. In 1984, the same increase was repeated and in 1985 a new percentage was applied. As a result, the system nearly came to a halt. The number of housing units financed fell from over 500,000 in 1982 to less than 100,000 in 1983 and averaged less than 150,000 units per annum through 1996.
Beginning in 1986, the BNH was extinguished and the SFH was restructured numerous times in attempts to accommodate it among existing branches of the federal government. At present, the system’s management is distributed among the Special Secretary of Urban Development, the Office of the President, the National Monetary Council (Conselho Monetário Nacional, “CMN”), the Central Bank of Brazil (Banco Central do Brasil. “Central Bank”) and the Caixa Econômica Federal (“CEF”), the latter assuming responsibility for managing the BNH’s liabilities, assets, personnel and real estate, as well as investment management of the FGTS.

2.1.1- System Liabilities

The SFH has two sources of funds: FGTS and SBPE. For their part, member institutions of the SBPE have three primary sources of funds used for SFH lending: savings accounts, government repass loans and mortgage notes. The most important of these are discussed below.

FGTS is one of the two principal sources of funding for SFH residential mortgages. Investment allocations from this pool are determined by a council at the Ministry of Planning, Budget and Management and executed by the CEF. Residential housing is only one of several investment categories funded from the FGTS. Data related to those investments are presented in chart 1.

Savings accounts are voluntary deposits held by individuals and corporations at member institutions of the SBPE and constitute the SFH’s other main source of funds. The outstanding balances of savings deposits are particularly important because they determine obligatory amounts that the depositary institutions must invest in SFH loans. Member institutions of the SBPE are subject to Central Bank monitoring to verify compliance. While savings deposit balances are a large source of funds and they finance an increasing number of units, data indicate that over the past seven years the aggregate savings deposit balances are growing only slightly faster than the reference rate (taxa de referência, “TR”) to which their remuneration is linked.

CHART 1 – FGTS Financed Residential Mortages (R$ millions)

CHART 2 – SBPE Financed Residential Mortgages (R$ millions)
In recent years government repass loans ("Government Repasses") have become an important source of SFH funding. The stock of funding from Government Repasses has increased consistently from its all time low of R$262.1 million in 2000 to over R$17,00 billion in September of 2007, as shown in *chart 4*.

### 2.1.2- System Assets
SFH lending terms are strictly regulated. Among other provisions, the following conditions must be observed.

a) Maximum amount financed is R$245,000 per unit.
b) Maximum appraised value is R$350,000 per unit.
c) Maximum cost to borrower is 12.0% per annum.
d) Payments are indexed to the TR.
e) Automatic extensions are allowed in certain circumstances.

Regulations call for 65.0% of savings deposit balances held to be directed to real estate lending, and of that, 80.0% must be under SFH terms. *Table 1* shows the obligatory investment distribution applying to resources raised through savings deposits.

**TABLE 1: Directed Investments of Savings Deposit Resources**

<table>
<thead>
<tr>
<th>GROUPS</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Available Resources</td>
<td>52.0%</td>
<td>6.5%</td>
<td>6.5%</td>
<td>20.0%</td>
<td>15.0%</td>
</tr>
<tr>
<td>Investment</td>
<td>SFH Loans</td>
<td>Loans at market rates</td>
<td>Other real estate financing operations</td>
<td>Central Bank reserve requirements</td>
<td>Discretionary lending</td>
</tr>
</tbody>
</table>

*Data through October 2007*

*Source: Central Bank of Brazil*/ Uqbar

*Source: Central Bank of Brazil/ CBIC*
The activities below use the following groups:
- Construction or improvement of residential real estate – Groups 1, 2, 3 and 5
- Construction or improvement of commercial real estate – Groups 3 and 5
- Land acquisition – Group 5

Since its creation, the SFH has financed more than 8.0 million units, primarily new ones. The annual number of new units grew continuously from the system’s beginning through 1980 when it peaked at 627,000 units. After 1980, owing to the effects of increased inflation combined with the disastrous policy of mismatched indexes applying to the system’s assets and liabilities, funding was sharply curtailed.

Chart 5 shows the evolution of the number of units offered by source of funding. SBPE includes savings accounts, mortgage notes and Government Repasses.

Chart 5 – SFH-Number of Units by Source of Funding

*Data from FGTS through November and from SBPE through September
Source: Central Bank of Brazil/ CBIC/ Caixa Econômica Federal

2.2- The Real Estate Finance System
(Sistema de Financiamento Imobiliário, “SFI”)

The SFH’s inability to address the country’s housing needs combined with increased macro economic stability in the mid 1990s cleared the way for a new approach to real estate finance. In November of 1997 the National Congress enacted Law 9,514 which created the SFI (the “SFI Law”). While the SFI marks an entirely different approach to real estate finance, it was not intended to replace the SFH, but rather to complement it. The two systems operate largely in parallel, with only a small, but increasing, scope for communication between them.

In comparing their approaches to real estate finance, two overriding characteristics differentiate the SFH from the SFI. First, compared to the highly regulated SFH with its directed investment allocations and mandatory lending terms, the SFI is entirely voluntary. Under the system, parties are free to determine the terms and conditions of
their own financing arrangements, as long as the following four conditions are met: (i) the total amount borrowed is repaid; (ii) interest is paid as contractually determined; (iii) interest is accrued; and (iv) life and disability insurance is contracted on the borrower.

The second major difference is funding. As presented earlier, the SFH relies on funding from the FGTS, savings accounts, Government Repasses and mortgage notes. Moreover, the system’s agents, notably the savings and loans institutions plus the CEF, hold residential loans on their balance sheets until final maturity. On the other hand, under the SFI, market participants are able to use securitization technology to create securities backed by real estate receivables and finance them in the capital markets.

As a logical consequence of their different approaches to real estate finance, the operational mechanics of the SFH bear no semblance to those of the SFI, which are established through the creation of a variety of legal concepts, financing instruments and securitization vehicles, the most relevant of which are detailed in the legal and regulatory framework section of this report.

One legal concept introduced in the SFI Law – fiduciary title in the sale of real estate assets – is particularly noteworthy for its far-reaching implications. A variation of this concept has been used for years in the local automobile finance market and has become widely adopted because it provides a highly effective form of guarantee to lenders. When utilized, title to the real estate being financed is held by the lender as fiduciary until the borrower’s obligations have been satisfied. At that time title shifts to the latter. In an event of default, the lender’s repossession of the real estate is a non-judicial process, thus decreasing the time required to sell the property and repay the investor.

The adoption of fiduciary title in the real estate market represents a highly significant change. Standard market practice under the old SFH procedures was for borrowers to take title to the real estate being financed which they would offer in guarantee to the lenders. In the event of default, lenders submit to a time consuming and costly judicial process of repossessing and selling the asset in a public auction, with considerable uncertainty regarding their ultimate success and when that might occur. Given these circumstances, it is easy to understand the SFH’s limited appeal to private sector lenders and the highly concentrated market, dominated by the federally owned CEF. In stark contrast, the SFI creates a favorable environment for investors in order to attract their participation. Fiduciary title to real estate is the best example of this.

Because of its efficiency relative to mortgage guarantees used traditionally in SFH lending, fiduciary title has become the norm not only in the SFI but also the SFH.

2.2.1- System Liabilities
Because of its voluntary nature, there are no specific funding mechanisms required for mortgage lending under the SFI. As the system was created together with the legal framework for securitization, the intention was that the capital markets would be the primary source of funding. While this is not required, and there are no consolidated
data, evidence indicates that the capital markets are indeed one of the system’s sources of funds. However, the two main sources are commercial bank funding and equity.

Through the end of 2007, real estate securitization companies (companhias securitizadoras de créditos imobiliários) have issued a total of R$6.08 billion in certificates of real estate receivables (certificados de recebíveis imobiliários, “CRI”) in the capital markets. CRI and real estate securitization companies were created by the SFI Law and are discussed in greater detail in the section covering the real estate securitization market.

Bank funding and equity are the main sources of financing for the two most important originators of SFI real estate loans: (i) commercial banks and (ii) homebuilders and real estate developers. As discussed in the next section covering the system’s assets, commercial banks that participate in SFI real estate lending generally hold these assets on their balance sheets, sometimes after being repackaged as CRI, and funded with the bank’s general pool of liabilities and equity. The banks that have demonstrated an interest in this market are, for the most part, the largest and most highly capitalized in the banking system. Most face few, if any, capital constraints. For this reason, it is expected that residential real estate loans will continue to be held on the balance sheets of the large commercial banks for the foreseeable future, and bank funding will continue to be a relevant source of SFI liabilities.

Historically, homebuilders and real estate developers have been prominent players in the residential real estate market, doubling as financial agents and holding sizable portfolios of receivables on their balance sheets. While there are no consolidated data for the stock of real estate receivables among the companies in this segment, it is expected that the major portion of those originated after the passage of SFI Law, in November of 1997, incorporate the features of SFI, including fiduciary title. Funding for these assets is a mix of third party obligations and companies’ own capital. As discussed in the next section, these companies are increasingly turning to the securitization and bank markets to finance the real estate credits they originate.
Recent events highlight the importance of equity funding. In 2007, 22 companies active in the residential real estate business issued shares in the public equity markets, many of which were initial public offerings. As illustrated in charts 6 and 7, equity finance represents an increasingly important source of funding for companies in this segment.

2.2.2- System Assets

Analyzed below are the two primary originators of SFI assets, financial institutions (including commercial banks, multiple banks, *caixas econômicas* and mortgage companies) and real estate developers and homebuilders.

Table 2 presents the principal terms and conditions on which financial institutions offer residential real estate finance in Brazil. Banks do not provide enough detail in their published financial statements to reach a conclusion regarding the amount of real estate credit originated under each of the two systems, SFH and SFI. Consequently, the table includes both, thus offering insight into the relative weight of each in the respective institution’s overall business mix. An analysis of these data indicate:
a predominance of interest rates linked to the TR, indicating that savings deposits and the FGTS continue to be principal sources of funds and that SFH lending is a significant part of their residential real estate finance businesses;

the presence of long terms, compatible with the nature of the financing, albeit with high rates of interest;

the low number of institutions that offer real estate finance, or at least, that present information regarding these products on their respective internet sites.

In addition, two other characteristics not included in table 2 can be observed regarding the credit being offered, an absolute convergence on the part of all participants for fiduciary title as the form of guarantee and a minimum 20.0% down payment.

Two related conclusions about their real estate credits can be drawn from the information presented: (i) relative to the size of the housing deficit in Brazil, few large commercial banks have aggressive residential real estate lending strategies currently in place at the operational level and (ii) origination of assets under SFI terms is modest.

The data in the table 2 below were obtained:

- in January of 2008 from the sites of the largest 155 commercial banks, multiple banks and caixas econômicas, as per the Central Bank of Brazil on December 15th, 2007;

- directly from mortgage banks and real estate credit companies that contacted Uqbar and supplied information regarding their residential real estate financing products.

For the sake of clarity, the data are presented in a standardized format, thus permitting a direct comparison of the various products being offered. However, the internet sites, which are the source of most of the data, present their information in numerous formats. Uqbar exercised its best efforts in obtaining these data from the sites of the respective financial institutions and in reproducing them in the table below, however their accuracy is not guaranteed.
TABLE 2: Terms and Conditions of Real Estate Finance by Commercial Banks, Multiple Banks, Caixas Econômicas, Mortgage Companies and Real Estate Credit Companies

<table>
<thead>
<tr>
<th>FINANCIAL INSTITUTION</th>
<th>PROPERTY VALUE (R$)</th>
<th>MAXIMUM PAYMENT AS % OF INCOME (GROSS, NET OR NOT INDICATED)</th>
<th>FINANCING TERMS OF BALANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>MINIMUM</td>
<td>MAXIMUM</td>
<td>INTEREST RATE ** (% PER ANNUM)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>BANCO ABN AMRO REAL</strong></td>
<td>46,000</td>
<td>120,000</td>
<td>27.0 (gross)</td>
</tr>
<tr>
<td></td>
<td>120,001</td>
<td>350,000</td>
<td>27.0 (gross)</td>
</tr>
<tr>
<td></td>
<td>350,000</td>
<td>no limit</td>
<td>27.0 (gross)</td>
</tr>
<tr>
<td></td>
<td>46,000</td>
<td>no limit</td>
<td>25.0 (gross)</td>
</tr>
<tr>
<td></td>
<td>not available</td>
<td>120,000</td>
<td>15.0 - 30.0</td>
</tr>
<tr>
<td><strong>BANCO BRADESCO</strong></td>
<td>120,001</td>
<td>350,000</td>
<td>15.0 - 30.0</td>
</tr>
<tr>
<td></td>
<td>350,000</td>
<td>3,000,000</td>
<td>15.0 - 30.0</td>
</tr>
<tr>
<td><strong>BANCO CITIBANK</strong></td>
<td>60,000</td>
<td>120,000</td>
<td>30.0</td>
</tr>
<tr>
<td></td>
<td>60,000</td>
<td>150,000</td>
<td>30.0</td>
</tr>
<tr>
<td></td>
<td>60,000</td>
<td>350,000</td>
<td>30.0</td>
</tr>
<tr>
<td></td>
<td>60,000</td>
<td>no limit</td>
<td>30.0</td>
</tr>
<tr>
<td></td>
<td>25,000</td>
<td>120,000</td>
<td>25.0 (net)</td>
</tr>
<tr>
<td></td>
<td>120,001</td>
<td>350,000</td>
<td>25.0 (net)</td>
</tr>
<tr>
<td></td>
<td>350,001</td>
<td>1,875,000</td>
<td>25.0 (net)</td>
</tr>
<tr>
<td></td>
<td>25,000</td>
<td>120,000</td>
<td>30.0 (net)</td>
</tr>
<tr>
<td></td>
<td>120,001</td>
<td>350,000</td>
<td>30.0 (net)</td>
</tr>
<tr>
<td></td>
<td>350,001</td>
<td>1,875,000</td>
<td>30.0 (net)</td>
</tr>
<tr>
<td><strong>BANCO DO BRASIL</strong></td>
<td>not available</td>
<td>80,000</td>
<td>25.0 (net)</td>
</tr>
<tr>
<td></td>
<td>80,001</td>
<td>150,000</td>
<td>25.0 (net)</td>
</tr>
<tr>
<td></td>
<td>150,001</td>
<td>350,000</td>
<td>25.0 (net)</td>
</tr>
<tr>
<td></td>
<td>350,001</td>
<td>no limit</td>
<td>25.0 (net)</td>
</tr>
<tr>
<td><strong>BANCO DO ESTADO DO RIO GRANDE DO SUL</strong></td>
<td>not available</td>
<td>not available</td>
<td>16.0</td>
</tr>
<tr>
<td><strong>BANCO FIBRA</strong></td>
<td>40,000</td>
<td>no limit</td>
<td>not available</td>
</tr>
<tr>
<td></td>
<td>40,000</td>
<td>no limit</td>
<td>not available</td>
</tr>
<tr>
<td><strong>BANCO ITAÚ</strong></td>
<td>40,000</td>
<td>120,000</td>
<td>30.0 (net)</td>
</tr>
<tr>
<td></td>
<td>40,000</td>
<td>120,000</td>
<td>30.0 (net)</td>
</tr>
<tr>
<td></td>
<td>40,000</td>
<td>120,000</td>
<td>30.0 (net)</td>
</tr>
<tr>
<td></td>
<td>40,000</td>
<td>120,000</td>
<td>30.0 (net)</td>
</tr>
<tr>
<td></td>
<td>120,001</td>
<td>350,000</td>
<td>30.0 (net)</td>
</tr>
<tr>
<td></td>
<td>350,001</td>
<td>no limit</td>
<td>30.0 (net)</td>
</tr>
<tr>
<td><strong>BANCO ITAÚ PERSONALITÉ</strong></td>
<td>40,000</td>
<td>120,000</td>
<td>30.0 (net)</td>
</tr>
<tr>
<td></td>
<td>40,000</td>
<td>120,000</td>
<td>30.0 (net)</td>
</tr>
<tr>
<td></td>
<td>40,000</td>
<td>120,000</td>
<td>30.0 (net)</td>
</tr>
<tr>
<td></td>
<td>40,000</td>
<td>120,000</td>
<td>30.0 (net)</td>
</tr>
<tr>
<td></td>
<td>120,001</td>
<td>350,000</td>
<td>30.0 (net)</td>
</tr>
<tr>
<td></td>
<td>350,001</td>
<td>no limit</td>
<td>30.0 (net)</td>
</tr>
<tr>
<td><strong>BANCO MATONE</strong></td>
<td>60,000</td>
<td>350,000</td>
<td>30.0 (gross)</td>
</tr>
<tr>
<td></td>
<td>60,000</td>
<td>350,000</td>
<td>30.0 (gross)</td>
</tr>
<tr>
<td></td>
<td>60,000</td>
<td>350,000</td>
<td>30.0 (gross)</td>
</tr>
<tr>
<td></td>
<td>350,000</td>
<td>no limit</td>
<td>30.0 (gross)</td>
</tr>
<tr>
<td></td>
<td>350,000</td>
<td>no limit</td>
<td>30.0 (gross)</td>
</tr>
</tbody>
</table>

**Brackets indicate that interest rate and/or amortization changes after a pre-determined period, usually 36, 48 or 60 months

***Constant amortization of principal

****Increasing amortization of principal
TABLE 2: Terms and Conditions of Real Estate Finance by Commercial Banks, Multiple Banks, *Caixas Econômicas*, Mortgage Companies and Real Estate Credit Companies (Cont.)

<table>
<thead>
<tr>
<th>FINANCIAL INSTITUTION</th>
<th>PROPERTY VALUE [R$]</th>
<th>MAXIMUM PAYMENT AS % OF INCOME (GROSS, NET OR NOT INDICATED)</th>
<th>INTEREST RATE ** (% PER ANNUM)</th>
<th>MAX. TENOR [IN YEARS]</th>
<th>AMORTIZATION**</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BANCO SANTANDER</strong></td>
<td>40,000</td>
<td>27.0 (gross)</td>
<td>de 12.9 a 14.0</td>
<td>30</td>
<td>Price</td>
</tr>
<tr>
<td>40,000</td>
<td>120,000</td>
<td>25.0 (gross)</td>
<td>TR + 8.0 (TR + 12.0)</td>
<td>20</td>
<td>IA**** (CA)</td>
</tr>
<tr>
<td>40,000</td>
<td>120,000</td>
<td>25.0 (gross)</td>
<td>TR + 9.0</td>
<td>30</td>
<td>IA (CA)</td>
</tr>
<tr>
<td>120,000</td>
<td>350,000</td>
<td>27.0 (gross)</td>
<td>TR + 11.0 (TR + 9.0)</td>
<td>30</td>
<td>CA</td>
</tr>
<tr>
<td>350,000</td>
<td>não há</td>
<td>27.0 (gross)</td>
<td>TR + 12.5</td>
<td>30</td>
<td>CA</td>
</tr>
<tr>
<td><strong>CAIXA ECONÔMICA FEDERAL</strong></td>
<td>50,000</td>
<td>30.0 (gross)</td>
<td>de 11.9 a 12.9</td>
<td>15</td>
<td>CA</td>
</tr>
<tr>
<td>15,000</td>
<td>130,000</td>
<td>30.0 (gross)</td>
<td>de TR + 9.0 a TR + 10.0</td>
<td>30</td>
<td>CA</td>
</tr>
<tr>
<td>50,000</td>
<td>350,000</td>
<td>30.0 (gross)</td>
<td>12.4</td>
<td>15</td>
<td>CA</td>
</tr>
<tr>
<td>15,000</td>
<td>350,000</td>
<td>30.0 (gross)</td>
<td>De TR + 11.5 a TR + 12.0</td>
<td>30</td>
<td>CA</td>
</tr>
<tr>
<td>350,000</td>
<td>no limit</td>
<td>30.0 (gross)</td>
<td>De 14.0 a 14.5</td>
<td>15</td>
<td>CA</td>
</tr>
<tr>
<td>350,000</td>
<td>no limit</td>
<td>30.0 (gross)</td>
<td>De TR + 12.5 a TR + 13.0</td>
<td>15</td>
<td>CA</td>
</tr>
<tr>
<td><strong>BRAZILIAN MORTGAGES CIA. HIPOTECÁRIA</strong></td>
<td>40,000</td>
<td>25.0 (gross)</td>
<td>IGPM+10.8</td>
<td>30</td>
<td>CA or Price</td>
</tr>
<tr>
<td>40,000</td>
<td>1,000,000</td>
<td>25.0 (gross)</td>
<td>IGPM+7.9 (IGPM+12.7)</td>
<td>30</td>
<td>CA or Price</td>
</tr>
<tr>
<td>40,000</td>
<td>1,000,000</td>
<td>25.0 (gross)</td>
<td>15.0</td>
<td>20</td>
<td>Price</td>
</tr>
<tr>
<td><strong>HSBC</strong></td>
<td>150,000</td>
<td>30.0</td>
<td>12.7</td>
<td>10</td>
<td>CA</td>
</tr>
<tr>
<td>50,000</td>
<td>120,000</td>
<td>30.0</td>
<td>TR + 8.0 (TR + 11.0)</td>
<td>20</td>
<td>CA</td>
</tr>
<tr>
<td>120,001</td>
<td>150,000</td>
<td>30.0</td>
<td>TR + 11.0</td>
<td>20</td>
<td>CA</td>
</tr>
<tr>
<td>150,01</td>
<td>350,000</td>
<td>30.0</td>
<td>TR + 12.0</td>
<td>20</td>
<td>CA</td>
</tr>
<tr>
<td>50,000</td>
<td>no limit</td>
<td>30.0</td>
<td>TR + 12.5</td>
<td>5</td>
<td>CA</td>
</tr>
<tr>
<td><strong>NOSSA CAIXA</strong></td>
<td>not available</td>
<td>40,000</td>
<td>TR + 7.0 (TR + 11.0)</td>
<td>25</td>
<td>CA</td>
</tr>
<tr>
<td>not available</td>
<td>150,000</td>
<td>not available</td>
<td>TR + 8.0 (TR + 11.0)</td>
<td>25</td>
<td>CA</td>
</tr>
<tr>
<td>not available</td>
<td>150,000</td>
<td>not available</td>
<td>TR + 9.0</td>
<td>25</td>
<td>CA</td>
</tr>
<tr>
<td>not available</td>
<td>350,000</td>
<td>not available</td>
<td>TR + 11.0</td>
<td>25</td>
<td>CA</td>
</tr>
<tr>
<td>not available</td>
<td>1,400,000</td>
<td>not available</td>
<td>TR + 12.0</td>
<td>25</td>
<td>CA</td>
</tr>
<tr>
<td>not available</td>
<td>not available</td>
<td>not available</td>
<td>12.0</td>
<td>up to 10</td>
<td>Price</td>
</tr>
<tr>
<td>not available</td>
<td>not available</td>
<td>not available</td>
<td>12.5</td>
<td>over 10</td>
<td>Price</td>
</tr>
<tr>
<td>not available</td>
<td>not available</td>
<td>not available</td>
<td>13.5</td>
<td>not defined</td>
<td>Price</td>
</tr>
<tr>
<td><strong>UNIBANCO</strong></td>
<td>40,000</td>
<td>27.0 (gross)</td>
<td>TR + 9.0</td>
<td>25</td>
<td>CA</td>
</tr>
<tr>
<td>40,000</td>
<td>120,000</td>
<td>27.0 (gross)</td>
<td>TR + 8.0 (TR + 10.9)</td>
<td>25</td>
<td>CA</td>
</tr>
<tr>
<td>120,001</td>
<td>350,000</td>
<td>27.0 (gross)</td>
<td>TR + 10.9</td>
<td>25</td>
<td>CA</td>
</tr>
<tr>
<td>40,000</td>
<td>1,000,000</td>
<td>25.0 (gross)</td>
<td>TR + 13.0</td>
<td>15</td>
<td>CA</td>
</tr>
<tr>
<td>350,001</td>
<td>350,000</td>
<td>25.0 (gross)</td>
<td>12.9</td>
<td>20</td>
<td>Price</td>
</tr>
<tr>
<td>350,001</td>
<td>1,000,000</td>
<td>25.0 (gross)</td>
<td>14.0</td>
<td>20</td>
<td>Price</td>
</tr>
</tbody>
</table>

**Brackets indicate that interest rate and/or amortization changes after a pre-determined period, usually 36, 48 or 60 months**

***Constant amortization of principal***

****Increasing amortization of principal***
The other important originators of SFI credits are homebuilders and real estate development companies. The business model that many of these companies have historically employed involves financing the sale of houses by using their balance sheets. One of the legacy effects is a portfolio of real estate credits, in some cases of considerable size. Table 3 presents a list of companies that offer real estate finance to individuals for which construction has been concluded and provides an indication of the credit portfolios that these companies hold.

The companies on the table below are those that:
• are active in real estate development, construction, investment or intermediation; and
• raised funds through the primary issue of equity in the public markets in 2006 or 2007.

The data were obtained from (i) the companies themselves, through telephone interviews and by e-mail correspondence with representatives of the investor relations departments during the months of December of 2007 and January of 2008, and (ii) the financial statements and press releases available at the Brazilian securities authority (Comissão de Valores Mobiliários – CVM).

TABLE 3 : Selected Data from Real Estate Companies that offer Residential Real Estate Financing

<table>
<thead>
<tr>
<th>COMPANY NAME</th>
<th>ACCOUNTS RECEIVABLES BALANCE*</th>
<th>DATE</th>
<th>SHORT TERM (R$)</th>
<th>LONG TERM (R$)</th>
<th>TOTAL (R$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agra Empreendimentos Imobiliários S.A.</td>
<td></td>
<td>06/30/07</td>
<td>152,658,000</td>
<td>26,877,000</td>
<td>179,535,000</td>
</tr>
<tr>
<td>Company S.A.</td>
<td></td>
<td>09/30/07</td>
<td>208,013,000</td>
<td>155,793,000</td>
<td>363,806,000</td>
</tr>
<tr>
<td>CR2 Empreendimentos Imobiliários S.A.</td>
<td></td>
<td>12/31/06</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Cyrela Brazil Realty S.A.</td>
<td></td>
<td>09/30/07</td>
<td>605,472,000</td>
<td>561,471,000</td>
<td>1,166,943,000</td>
</tr>
<tr>
<td>Ez Tec Empreendimentos e Participações S.A.</td>
<td></td>
<td>09/30/07</td>
<td>40,100,000</td>
<td>109,427,000</td>
<td>149,527,000</td>
</tr>
<tr>
<td>Gafisa S.A.</td>
<td></td>
<td>09/30/07</td>
<td>458,396,000</td>
<td>384,934,000</td>
<td>843,330,000</td>
</tr>
<tr>
<td>Helbor Empreendimentos S.A.</td>
<td></td>
<td>09/30/07</td>
<td>967,000</td>
<td>1,909,000</td>
<td>2,876,000</td>
</tr>
<tr>
<td>JHSF Participações S.A.</td>
<td></td>
<td>09/30/07</td>
<td>64,344,000</td>
<td>0</td>
<td>64,344,000</td>
</tr>
<tr>
<td>Klabin Segall S.A.</td>
<td></td>
<td>09/30/07</td>
<td>62,299,858</td>
<td>106,048,118</td>
<td>168,347,976</td>
</tr>
<tr>
<td>MRV Engenharia e Participações S.A.</td>
<td></td>
<td>09/30/07</td>
<td>141,719,000</td>
<td>143,043,000</td>
<td>284,762,000</td>
</tr>
<tr>
<td>Multiplan Empreendimentos Imobiliários S.A.</td>
<td></td>
<td>09/30/07</td>
<td>58,830,000</td>
<td>12,088,000</td>
<td>70,918,000</td>
</tr>
<tr>
<td>Rodobens Negócios Imobiliários S.A.</td>
<td></td>
<td>09/30/07</td>
<td>64,059,000</td>
<td>59,822,000</td>
<td>123,881,000</td>
</tr>
<tr>
<td>Rossi Residencial S.A.</td>
<td></td>
<td>09/30/07</td>
<td>209,720,000</td>
<td>433,264,000</td>
<td>642,984,000</td>
</tr>
<tr>
<td>Tecnisa S.A.</td>
<td></td>
<td>09/30/07</td>
<td>180,647,000</td>
<td>118,738,000</td>
<td>299,385,000</td>
</tr>
</tbody>
</table>

* Balances were obtained from the “Accounts Receivables” or “Clients” account of the consolidated financial statements of the date indicated. These accounts generally include only that part of the balance on which income was recognized during the period in question, and could include various types of client receivables and not just those related to real estate finance. The part that is related to real estate finance could correspond to projects still under construction or already complete.
After decades in which real estate development and construction companies were obliged to offer financing in order to sell their products, this business model is undergoing an important change. The discipline of the capital markets and the logic of specialization have begun to prevail. Real estate companies recognize that their value added is in development and construction and that financing is a service that financial institutions can offer more efficiently. In fact, one of the principal conclusions of conversations held with representatives of the various companies’ investor relations departments is the clear preference for not acting as a financing agent. In several cases, companies have formal policies restricting this activity.

3- THE BRAZILIAN REAL ESTATE SECURITIZATION MARKET

3.1- Introduction

Issuances of asset-backed securities in the Brazilian capital market grew for the seventh consecutive year in 2007. During the year, total issues were R$15.63 billion, of which R$14.22 billion were shares issued by receivables investment funds (fundos de investimento em direitos creditórios, “FIDC”), and R$1.41 billion were Certificates of Real Estate Receivables (Certificados de Recebíveis Imobiliários, “CRI”). Compared to 2006, these figures represent growth of 29.9%, 27.9% and 53.6% respectively.

Chart 8 presents the amounts of all asset-backed securities issued in the domestic market since 1999, when the first CRI was issued, separated by securities backed by real estate credits and non-real estate credits. During this period, the overall securitization market has grown at an average annual rate of 75.6%.

Not only is the market growing quickly, it also has considerable breadth. In the period from 2005 to 2007, twelve different asset classes backed the securities issued, in addition to securities backed by two or more asset classes. In spite of the fact that the legal and regulatory framework for real estate finance securitization pre-dates that for non-real estate finance securitization, the former is only 15.8% of the consolidated amount issued. That is less than issuances of securities backed by Trade Receivables or Personal Loans, asset classes that began to be securitized in meaningful amounts as recently as 2003.
The real estate securitization sub-set of the Brazilian securitization market is broken down by type of underlying credit, Residential (for individuals) or Corporate in chart 9.

Residential Credits are those originated from the financed sale of homes to individuals. In 2007, R$301.5 million in securities backed by Residential Credits were issued, a decrease of 5.9% from the prior year.

Corporate Credits are those originated from loans or similar obligations to businesses, generally large ones. These are companies that finance the construction or acquisition of industrial or commercial property in the securitization market. There were 25 such operations in 2007 with total issues of R$1.14 billion.

3.2 - Legal and Regulatory Framework

Real estate securitization in Brazil effectively began with the SFI Law and its subsequent regulations by the Central Bank and the Comissão de Valores Mobiliários. Together, they constitute a milestone for real estate securitization, representing the legal basis of nearly all transactions that have been done in this market since they were enacted.

The SFI Law defines the securitization of real estate receivables as an operation in which the receivables in question are expressly linked to the issue of fixed income securities, called CRI, through a receivables securitization contract (termo de securitização de créditos) prepared and executed by a Real Estate Securitization Company (Companhia Securitizadora de Créditos Imobiliários, “Securitization Company(ies)”).

Public offerings of CRI are regulated by the CVM’s Instruction 414, amended by Instructions 443 and 446. Pursuant to these instructions, CRI can be placed directly by Securitization Companies if the aggregate issue amount is less than R$30.0 million. Otherwise, they require the involvement of a securities dealer as intermediary. Except in certain limited circumstances, the minimum denomination for CRI is R$300,000 (three hundred thousand reais). The practical effect of this limitation is to restrict the distribution of CRI to high net worth individuals and institutional investors. Instruction 443 of December 8th, 2006 brought improved transparency to the CRI market by making prospectuses obligatory and establishing minimum content requirements that include information on the receivables, originators and borrowers.

The purchase and sale of CRI may be settled on the two Brazilian settlement systems for securities transactions, CETIP and CBLC, and can be negotiated on trading systems at Bovespa’s BovespaFix and Somafix, or CETIP’s CetipNet.
For more information on CRI, Securitization Companies and other legal concepts that are central components to the securitization market’s legal and regulatory framework, such as fiduciary relationship (regime fiduciário) and fiduciary title of real estate (alienação fiduciária), please refer to the Glossary.

3.3- Transaction Structures
Real estate securitization transactions follow a relatively standard set of structures depending upon the type of collateral backing the CRI.

3.3.1- Residential Credits
Usually a small group of originators sells selected credit portfolios to a Securitization Company, which finances the purchase through an issue of CRI backed by the same portfolio. The securities are usually issued using one of two structures: senior-sub or overcollateral.

The senior-sub structure
This structure uses subordination as the main form of credit enhancement, and is illustrated in the chart below. Transactions using this structure allocate first losses in the credit portfolio to a subordinated class (“CRI Junior”), which must be completely eliminated prior to any credit loss being absorbed by the senior classes (“CRI Senior”). There is a true sale of the entire credit portfolio from the seller to the Securitization Company and total assets equal the notional value of the securities issued plus a small residual interest, usually retained by the sellers. CRI Junior are usually placed with the seller or retained by the Securitization Companies.

Additional transaction features sometimes include: (i) structural enhancements such as reserve and liquidity funds and overcollateralization; and (ii) third party enhancements that could include substitution or repurchase of a limited portion of the portfolio’s defaulted credits by the seller and insurance on the obligor’s life and/or the property being financed. Although not seen yet in significant amounts, additional credit enhancements, such as mezzanine tranches, multi-lateral guarantees and portfolio insurance, are expected in the near future.

CHART 10 – Senior-Sub Structure
The overcollateral structure
This structure uses overcollateral as the main credit enhancement, and is illustrated in chart 11. In transactions that use this structure, the principal balance of the securitized assets exceeds the balance of the securities issued. To date, in the Brazilian market, transactions using this structure have issued just a single class of CRI. The collateral that exceeds the amount of securities issued absorbs the portfolio’s first credit losses and must be eliminated before any losses accrue to investors. Usually, there is a true sale of the credit portfolio from the seller to the Securitization Company equivalent to the notional value of the securities issued. The additional collateral is provided as a credit enhancement to the investors.

Additional transaction enhancements are similar to those mentioned in the section describing the senior-sub structure.

3.3.2- Corporate Credits
In the corporate market there are numerous variations on two basic structures: “build-to-suit” and “sale-lease back”.

The “build-to-suit” structure
In this structure, see chart 12, the receivables backing the CRI are generated from rent payments arising from “build-to-suit” agreements signed between a construction company or developer and one or more companies from the same economic group. Under these agreements, a company looking to finance the acquisition and construction of new property (the Tenant) contracts a third party, usually a special-purpose vehicle owned by a developer (the SPV or the Landlord), to: (i) buy the land; (ii) define the project that meets the company’s needs; (iii) develop and construct the building and (iv) rent the building on pre-defined terms.
The receivables generated by these contracts (the rent payments made by the Tenant) are sold by the Landlord to a Securitization Company that finances the purchase with the issue of a single tranche CRI backed by those receivables.

Additional transaction enhancements sometimes include: (i) fiduciary title or mortgage on the land; (ii) performance guarantees covering risks associated with the developer and construction company as well as a lien on the SPV’s shares. The documentation generally includes covenants that restrict the SPV’s indebtedness and changes in company by-laws. The Tenant may also have an option to buy the property at a pre-determined value at the end of the rental contract.

The “sale and lease-back” structure

Owing to the similarity of structures, as illustrated in chart 13, operations of this type have borrowed the “sale and lease-back” name. Under this structure, a company sells certain rights related to the use of a property’s surface area to a SPV. The SPV then cedes the right to use the property’s surface area back to the company (generally using a contract called a Surface Area Usage Rights Agreement, or Contrato de Direito de Uso de Superfície). The SPV finances its purchase of the property by selling the property’s surface usage rights payment obligation to a Securitization Company, that finances the purchase through the issuance of a single tranche CRI backed by those receivables.
Additional transaction enhancements sometimes include: (i) fiduciary title or mortgage of the land and (ii) recourse against the company. If development and construction is necessary, performance guarantees covering risks associated with the developer and construction company as well as the SPV’s shares may also be required.

**CHART 13 – “Sale and Lease-Back” Structure**

3.4- Market Participants
3.4.1- Securitization Companies
The much expected boom in the real estate sector has spawned a proliferation of real estate securitization companies, reaching 42 at the end of 2007. On the other hand, the low level of business that is actually available is concentrated in a handful of companies, as can be observed in the chart below.

**CHART 14– Cumulative Participation of Securitization Companies by Amounts Issued from 1999 to 2007**
3.4.2- Originators
The main originators of collateral for real estate securitizations are homebuilders, real estate development companies and financial institutions. As can be seen in the charts below, the number of companies that sell their credits to the securitization market is small.

In spite of the need that homebuilders and real estate development companies have to sell their credit portfolios in order to finance new projects, the number of participants in the securitization market is a small fraction of the number of companies active in the sector. The tiny participation of financial institutions is a clear indication that the market’s commercial banks have not begun to securitize their portfolios on a meaningful scale. The chart below presents the number of originators that have sold portfolios to the securitization market, by economic activity for operations realized in 2007.

3.4.3- Investors
Historically, CRI investors are highly concentrated in the financial institutions sector. In the case of Residential Credits, these are generally member institutions of the SBPE. Depending on the profile of the underlying credits, the investment may count toward their obligatory lending requirements.

In the case of Corporate Credits, the institutions that participate in the underwriting consortium generally subscribe to the major portion of the issuance for their own credit portfolios.
4- TAX CONSIDERATIONS
Prepared by PricewaterhouseCoopers

In recent years Brazil has become a highly attractive investment target among international investors for reasons related to the macroeconomic environment as well as legislation and regulatory initiatives that have contributed to greater transparency and a more competitive tax structure for a range of instruments, including those related to real estate finance and securitization. This article briefly discusses the most important among them.

Perhaps the most significant economic factors are the declining trends in inflation and interest rates. For example, base interest rates, were on average 19% p.a. through the middle of this decade. By March of 2008 they had fallen to around 11%.

Brazil's improved economic fundamentals were also reflected in the international markets. Over the same period of time mentioned above there has been a consistent decrease in the risk premium charged in the international markets for fixed income securities from Brazilian issuers.

The consolidation of the macroeconomic scenario represented by the decrease in interest rates, inflation and country risk premiums contributed to an increase in demand not only for fixed income securities, but also for listed shares in Brazilian companies active in the real estate sector and for alternative financial investments including real estate, derivatives and other risk assets.

Over the last two years, Brazil’s legislators have been making consistent efforts to improve the financial market legislation to the level of sophistication demanded by the financial market.

Both regulatory authorities and private sector practitioners recognize that the transformation of the Brazilian market to the next level of competitiveness depends on certain initiatives, including those discussed below.

• In 2007, the Brazilian Securities Commission (CVM) published Instruction 457, establishing the mandatory presentation of consolidated financial statements by all listed companies, in accordance with International Financial Reporting Standards (IFRS) beginning in 2010. For companies that customarily raise funds in the U.S. market, or that intend to do so in the near future, this adaptation process will probably be accelerated, particularly considering the rules published by the U.S. Securities and Exchange Commission (SEC) in November 2007.

• Starting in 2008, Law 11,638/07 implemented various improvements in Brazilian GAAP, moving towards international accounting practices. Moreover, this same Law enforced the mandatory auditing of financial statements of “large sized companies” bringing greater transparency and comparability to the results and performance reported by those companies.
• The publication of a technical document resolved the main issues that had given rise to a number of uncertainties and inconsistencies in the accounting treatment adopted by real estate companies.

• The CVM published various accounting standards regarding the treatment applicable to securitization transactions and to special purpose vehicles in order to give guidance on property development projects.

In addition, to the regulatory advances, tax incentives have also been granted to investors interested in the Brazilian financial market, with particular attention to foreign investors.

Real estate was one of the sectors that benefited from these changes, the most important of which are mentioned below.

• The first measures to reduce taxes on income earned by private Brazilian individuals on their real estate investments focused on capital gain taxes which can be reduced or even avoided if the proceeds are reinvested in other real estate assets within a pre-determined period.

• Starting in 2005, individual taxpayers resident in Brazil became exempt from the payment of income tax on gains from certificates of real estate receivables - CRI.

• Starting in 2006, individual quota holders in real estate investment funds also benefited from the exemption, provided that the fund has more than 50 shareholders and complies with specified concentration limits.

• Securitization companies were authorized to deduct funding expenses from the calculation of social contribution taxes, PIS (Social Integration Program) and COFINS (Social Contribution on Revenues), and adopt a combined rate for these contributions of 4.65% that is lower than other entities.

The greatest benefits for investing in Brazil are granted to foreign investors not domiciled in tax havens that invest pursuant to the Central Bank of Brazil’s Resolution 2,689. These investors are submitted to a more favorable tax treatment than Brazilian residents.
• Income earned by non-resident shareholders in an investment fund referred to as a *Fundo de Investimento em Participações (FIP)* became taxable at a zero rate for income tax purposes. To benefit from the zero rate, investments by non-resident shareholders must be made under the Central Bank of Brazil’s Resolution 2,689 and these investors cannot be residents of tax havens. Moreover, ownership concentration or dividend distribution must be lower than 40%.

• Foreign Investors, fulfilling the above requirements are subject to a withholding tax at a zero rate on earnings from government securities (acquired after February 16th, 2006).

• Foreign investors’ capital gains realized upon disposal of listed equities and derivatives (such as options and futures) through exchanges are not subject to any income tax.

• Depending on the portfolio acquired by the foreign domiciled investor, its earnings may be subjected to withholding tax at a rate varying from 10% (for example swaps) to 15% (for example fixed income), lower than the 15% and 22.5% respectively applicable to Brazilian investors.

We believe that the current macroeconomic, regulatory and tax scenarios described above will provide a positive contribution toward sustained investment growth in Brazil.

Furthermore, decreases in Brazil’s interest rates and risk premiums as well as the reduction in external debt and inflation, allied with the improved regulatory and tax environment are additional enhancements for sophisticated and demanding investors in a variety of risk assets including real estate and asset backed securities.

Considering the relevant tax benefits granted to the foreign investors, we believe in a trend of increasing current demand for risk assets originated from the Brazilian financial markets on the part of the international financial investment community, particularly those in a position to benefit from the highly attractive tax incentives.

*João Santos, Álvaro Taiar e Ana Luiza Lourenço. The authors are specialists in Investment Management & Real Estate Industry*
5- CONCLUSION

Apart from the CEF, residential real estate finance has been only a tiny segment of the Brazilian financial market for decades. Even for the member institutions of the SBPE, large universal banks for the most part, mortgage lending usually amounts to little more than a minor entry on their financial statements. Over the past several years this has begun to change, but the process is slow. These large institutions require time in order to analyze and understand a business that is new and different from their other areas of activity. Only now is the market beginning to see evidence that some of them have begun to develop and implement real estate finance strategies. In most cases, the banks that have are highly capitalized and looking to increase the size of their credit portfolios. As they build their mortgage lending businesses, it is expected that most of the assets they originate will be held on balance sheet, over the short to medium terms.

The situation is markedly different for the other main originators of residential mortgages, namely real estate developers and homebuilders. Many of the major players in this segment have raised equity in the public markets over the past 24 months. A substantial portion of the amounts raised have been invested in land banks that are being transformed into finished products and finally into mortgage portfolios that are clearly targeted for sale. Probable buyers include large commercial banks and the securitization market.

As the trends among large commercial banks, real estate developers and homebuilders unfold, a third and perhaps more powerful force is also at play: increasing investor demand, both domestic and international. Apart from the downward pressure on interest rates, the existence of a liquid market with strong demand for assets also creates an opportunity for new credit origination businesses. Several foreign groups are actively examining the Brazilian market with a view to establishing mortgage banks. A number of small to medium sized Brazilian banks are also moving to exploit this opportunity and are in advanced stages of formulating and testing residential mortgage finance products. Many of these same banks have had favorable experiences in originating personal loans and selling them either to large commercial banks or to the securitization market. It is their clear aim to repeat the process in the real estate finance businesses they are preparing to launch.

As this report has demonstrated, securities backed by real estate credits are a small part of the Brazilian securitization market at present. However, many of the elements required for accelerated growth are already in place. The country’s legal and regulatory framework is modern, flexible and functional. Demand for household finance products is enormous, particularly among the low-income segments of society. There is an abundance of investable funds, currently in excess of the amount of securities being brought to market, and a well established domestic market yield curve for benchmark government and certain corporate fixed-income securities. Significantly, the main constraint to growth - real estate credit origination – is being addressed in earnest not only by the market’s traditional originators, commercial banks, real estate developers and home builders, but also by new entrants including foreign groups and small to medium sized Brazilian banks. The result is certain to contribute to the continued growth of the securitization market, with real estate backed securities taking an increasing share in future years.
6- GLOSSARY OF TERMS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BNH</strong></td>
<td>Acronym for <strong>Banco Nacional da Habitação</strong>. See National Housing Bank.</td>
</tr>
<tr>
<td><strong>Brazilian Savings and Loans System, (Sistema Brasileiro de Poupança e Empréstimo)</strong></td>
<td>Financial institutions authorized by the Central Bank of Brazil to accept savings deposits and engage in lending activities in the real estate sector.</td>
</tr>
<tr>
<td><strong>Caixa Econômica Federal</strong></td>
<td>A federal owned financial institution that accepts savings deposits and has lending activities focused on the housing, infra-structure and basic sanitation sectors. CEF is the largest participant in the Brazilian Savings and Loans System measured by savings deposits.</td>
</tr>
<tr>
<td><strong>Caixas econômicas</strong></td>
<td>Publicly owned savings and loans institutions that accept savings deposits and have lending activities in the housing, infra-structure and basic sanitation sectors.</td>
</tr>
<tr>
<td><strong>CEF</strong></td>
<td>Acronym for <strong>Caixa Econômica Federal</strong>.</td>
</tr>
<tr>
<td><strong>Central Bank of Brazil (Banco Central do Brasil, “Central Bank”)</strong></td>
<td>A branch of the federal government, subordinated to the National Treasury, created by Law 4,595 of December 31st, 1964. The Central Bank is the principal executor of policy guidelines established by the CMN. The Central Bank is responsible for the inspection of the financial institutions that belong to the SBPE and the regulation of savings accounts.</td>
</tr>
<tr>
<td><strong>Certificates of real estate receivables (Certificados de Recebíveis Imobiliários)</strong></td>
<td>Securities backed by real estate receivables. Only Real Estate Securitization Companies are permitted to issue CRI, which were created in order to allow these companies to raise funds from investors on terms compatible with underlying real estate transactions. They are negotiable, fixed income securities originated through receivables securitization contracts, that identify the real estate receivables backing them. The principal characteristics of CRI include the following: a) they are book-entry securities, b) the principal amount can be repaid in installments, c) interest rates can be fixed or floating, and d) they can be guaranteed by the issuer’s assets. CRI are normally settled on one of two, or both, clearing houses, CETIP or CBLC and can be traded on BovespaFix, SomaFix or CetipNet.</td>
</tr>
<tr>
<td><strong>CMN</strong></td>
<td>Acronym for <strong>Conselho Monetário Nacional</strong>. See National Monetary Counsel.</td>
</tr>
</tbody>
</table>
**Comissão de Valores Mobiliários**

Brazilian Securities Commission.

**CRI**

Acronym for *Certificados de Recebíveis Imobiliários*. See certificates of real estate receivables.

**CVM**

Acronym for *Comissão de Valores Mobiliários*.

**Fiduciary relationship (regime fiduciário)**

A legal concept introduced to the real estate market by Law 9,514 in November of 1997 by which a legal relationship is established between specified real estate receivables and the securities, generally CRI, that back them. When established by the Securitization Company, this legal concept allows receivables to be separated from the Securitization Company’s other assets and their cash flow to be directed exclusively to pay interest and principal on the CRI to which they are associated, plus certain transaction expenses. Receivables covered under this arrangement are not accessible by the Securitization Company’s creditors. Therefore, investors that purchase CRI in which a fiduciary relationship has been established do not run the credit or other risks associated with the Securitization Company, including bankruptcy, or any other transactions accounted for on the Securitization Company’s balance sheet. By segregating pools of receivables and linking each to specific CRI, Securitization Companies can execute multiple transactions without changing the risk characteristics of any previous or subsequent issues. Similarly, deterioration in the credit quality of any given receivables pool will impact only those CRI associated with that pool, and will not have any impact on the remuneration of any other CRI. For every CRI issue in which a fiduciary relationship has been established by the Securitization Company, a fiduciary agent must be nominated to represent the interests of the CRI investors.

**Fiduciary title of real estate (Alienação fiduciária da coisa imóvel)**

A legal concept introduced to the real estate market in Law 9,514 of November of 1997. Used as a form of guarantee, it takes the form of a transfer of real estate ownership from the obligor to the creditor until such time as the obligation has been extinguished. Establishing fiduciary title consists of two legal relationships. The first is a contractual financial obligation. The second is the transfer of title to real estate from the obligor to the creditor, not for the purposes of securing ownership, but in order to guarantee payment of the contractual obligation established previously.

The practical effect of this important legal concept is to abbreviate the time required to repossess real estate in the event of default.
**FGTS**  
Acronym for *Fundo de Garantia do Tempo de Serviço*. See Worker’s severance fund.

**Household Finance System**  
*(Sistema Financeiro da Habitação)*  
A special segment of the National Finance System created by the Law 4,380 in 1964. Created institutions as well as financial and legal concepts to regulate and control the country’s house market.

**Mortgage company**  
*companhia hipotecária)*  
One of the original financial agents of the SFH. Financial institutions authorized to enter into the same activities as real estate companies in addition to managing third party mortgage credits and real estate investment funds.

**Mortgage notes**  
*letras hipotecárias)*  
Securities issued by financial institutions authorized by the Central Bank to engage in real estate lending.

**Multiple bank**  
*banco múltiplo)*  
Financial institutions authorized by the Central Bank to engage in more than one category of financial intermediation, for example, real estate and corporate lending.

**National Housing Bank**  
*Banco Nacional da Habitação)*  
Created by Law 4,380 in 1964, the BNH was charged with regulating and providing policy orientation to the housing market. The BNH was extinguished by Law 2,291 of 1986.

**National Monetary Counsel**  
*Conselho Monetário Nacional)*  
Brazil’s highest monetary authority. Participants include the Treasury Minister and the President of the Central Bank of Brazil.

**Real Estate Company**  
*sociedade de crédito imobiliário)*  
A legal vehicle created under Law 4,380 of 1964 which acted as one of the SFH’s original financial agents. These companies’ activities were limited to financing residential home construction and sales. They were forbidden from performing any other kind of financial activity. They could raise funds through borrowings directly from the BNH and two other instruments, savings accounts and mortgage notes.

**Real Estate Finance System**  
*Sistema de Financiamento Imobiliário)*  
Enacted by Law 9,514, it promotes real estate financing by freeing-up lending terms and conditions and establishing the basis for a secondary market for real estate credits through securitization.

**Real Estate Notes**  
*letras de crédito imobiliário)*  
Securities issued by financial institutions authorized by the Central Bank to engage in real estate lending.

**Real Estate Receivables**  
Though not a concept defined precisely in the law, the CVM has been considering real estate receivables to be those credits typically arising from either the sale of real estate to individuals or corporations, or from loan, lease or rent agreements for the purchase, construction or use of real property.
Real Estate Securitization Company (companhia securitizadora de créditos imobiliários, “Securitization Company(ies)"

A legal vehicle created by Law 9,514 of November of 1997 for the express purpose of securitizing real estate receivables. This securitization vehicle is a non-financial institution organized as a corporation (sociedade anônima). It’s business objective is the acquisition and securitization of real estate credits, the issuance and placement in the financial markets of certificates of real estate receivables and other fixed income instruments and the provision of related services. All Securitization Companies must be registered at the CVM prior to issuing securities in the public markets. Since they are not financial institutions, Securitization Companies are not subject to regulation or inspection by the monetary authorities but are subject to CMN norms regarding minimum operating requirements.

Receivables securitization contract (termo de securitização de créditos)

A contract prepared by real estate securitization companies in which real estate receivables are explicitly linked to securities backed by these receivables. The securities are generally certificates of real estate receivables.

Reference Rate (Taxa Referencial)

Monthly average rate of 30-day interbank deposits adjusted by a methodology established by the National Monetary Counsel.

Savings accounts (caderneta de poupança)

Deposits accepted by financial institutions of the SBPE. One of four main sources of funds for the SFH.

SFH

Acronym for Sistema Financeiro da Habitação. See Brazilian Household Finance System.

SFI

Acronym for Sistema de Financiamento Imobiliário. See Real Estate Finance System

SPBE

Acronym for Sistema Brasileiro de Poupança e Empréstimo. See Brazilian Savings and Loans System.

TR

Acronym for Taxa Referencial. See Reference Rate.

Worker’s severance fund (Fundo de Garantia do Tempo de Serviço)

A savings fund into which employers are required to deposit 8,0% of their employees’ monthly salaries. These funds belong to the employees and can only be withdrawn when the employee is fired, upon the purchase of a first home or other special circumstances. The FGTS is managed by the CEF and is one of the SFH’s largest sources of funding.
Uqbar is Brazil’s first knowledge based company specialized in advanced finance, with a focus on domestic securitization. Its mission is to transmit and generate knowledge for the financial market through the three pillars on which it is founded: education, information and technology.

**BRAZILIAN SECURITIES**

Brazilian Securities was created in 2000 for the purpose of developing the Brazilian market for real estate securities. It was the first company in Brazil to obtain an AA1.BR classification from Moody's Investors Service, for its issuance of CRIs. Total Brazilian Securities issues (jan/2008): R$ 2,08 billion, 33% of market share. Ranked #1 since 2005.

www.bfre.com.br

**PMK ADVOGADOS**

PMK A combines strong technical training, unparalleled experience in real estate business law and an in-depth understanding of the entrepreneurial dynamics in this sector that contribute to superior performance in the identification, assessment and proposition of effective solutions.

www.pmkadvogados.com.br

**BETA SECURITIZADORA**

Beta Securitizadora has participated in the Brazilian securitization market for the last four years, specializing in real estate financial structured transactions, aiming at raising funds for companies in different sectors, adding value to its assets with the focus always on development of the real estate and capital markets.

www.banifib.com.br

**SPONSORS:**

**PricewaterhouseCoopers** provides industry-focused assurance, tax and advisory services for public and private clients. More than 146,000 people in 150 countries connect their thinking, experience and solutions to build public trust and enhance value for clients and their stakeholders. Our Investment Management and Real Estate team is ready to help your business in Brazil with a global view.

www.pwc.com

**Pedraza Maximiano Kawasaki Assolini**

A revolutionary new model of real estate financing for the Brazilian market, launched in May 2007 by Brazilian Mortgages, BM Sua Casa offers an integrated platform of products and solutions for the middle-class buyer, including financing for acquisition of new and pre-owned real estate, urban building plots and commercial property, loans for home and office construction, expansion and improvement.

www.bmsuacasa.com.br

**Sponsors:**

**www.uqbaronline.com**