Financiera Compartamos

HIGHLIGHTS
• First ever structured bond issue by a microfinance company in Mexico
• Peso 500mn (US$43.4mn equivalent) bond issuance program by Financiera Compartamos (Mexico)
• Partial credit guarantee by IFC for up to 34% of the outstanding principal amount
• Achieved a national scale rating of AA by both S&P and Fitch, two notches above the company’s stand-alone rating of A+
• Voted Best Structured Bond of the Year in 2004 by LatinFinance Magazine

THE COMPANY
In 2000, Financiera Compartamos (the Company) was transformed from a non-governmental organization (“NGO”) into a finance company structured as a Sociedad Financiera de Objeto Limitado (“SOFOL”); a non-deposit taking company authorized to conduct financial activities within a limited scope.

Compartamos provides micro loans with an average size of US$300 through three products: village banking, solidarity group loans, and individual loans. The Company has a growing network of more than 100 branches in 16 regions of Mexico and more than 240,000 borrowers, of which more than 95% are women in rural areas. In providing village banking loans to groups of 15 to 50 women, Compartamos has become a role model for strong financial performance and established a highly successful lending methodology in microfinance.

Compartamos is well managed, sufficiently capitalized, has an excellent portfolio, and is remarkably profitable. As of June 30, 2004, it had a loan portfolio of around US$75mn, an ROA of 19.5%, an ROE of 50.4%, and a loan delinquency rate of only 0.7%.

FINANCING OBJECTIVES
As a SOFOL, Compartamos is not authorized to take deposits. Hence, the Company has had to primarily rely on local currency revolving credit lines, long-term dollar loans, equity, and retained earnings to finance its growth. As of June 30, 2004, total liabilities represented approximately 60% of total assets.

In 2002, the Company successfully issued its first bond. The three year bond, issued in three tranches for an aggregate amount of MXN 200mn, was rated mA+ and sold to domestic private investors. Following on this success, Compartamos established plans for a MXN 500mn bond issuance program. Priorities for this program included increasing tenor, diversifying the investor base to include institutional investors, and reducing borrowing costs. This program is an important component of Compartamos’ growth plans, which include an expansion of its customer base to 1 million clients by 2008.

As an existing shareholder that understood the enormous potential of Compartamos, IFC offered to provide a partial credit guarantee to support this program. The first bond under the program was launched in July 2004.
THE STRUCTURE
The MXN 190mn five-year bonds were priced to yield TIIE (Mexican floating rate) + 150 bps. The principal amortizes over the last two years with equal principal installments every month.

IFC assisted in structuring the transaction and provided credit enhancement in the form of a partial credit guarantee. The guarantee amount is equal to 34% of outstanding principal, and was structured to reduce the probability of default as well as increase the recovery if a default were to occur.

The guarantee can be used to repay up to the full amount of principal and interest falling due and payable to bondholders on any given payment date (subject to guarantee limits) if there are insufficient funds for a particular period. The available guarantee may also be called upon in full if the bonds have been accelerated.

OUTCOME
The bonds received a national scale rating of AA by both Standard and Poor’s and FitchRatings, a two-notch upgrade from Compartamos’ stand-alone rating of A+.

The placement achieved significant diversification with 30% of the bonds going to institutional investors, another 30% to mutual funds and the rest to private investors. The spread on this issue was tight at 150bps over the 28 days TIIE, pricing at the lower end of the spread range for other AA bonds in Mexico with similar tenors. The tight pricing reflected a strong endorsement by the market of the Company’s fundamentals and the credit-enhanced structure.

The issue allowed Compartamos to meet its financing objectives, to diversify its investor base, and to achieve a competitive borrowing cost. It was the first ever structured bond issue from a microfinance institution and IFC’s first direct partial credit guarantee in the Mexican market.

Following this successful first tranche, Compartamos completed its MXN 500mn bond issuance program by launching a second tranche fourteen months later. This MXN 310mn five-year bond was more than three times oversubscribed, receiving bids from 20 institutional investors and pricing at the best end of expectations. The long tenor, strong institutional demand, and tight pricing were all indications that Compartamos' initial financing objectives had been met.