



**BlueOrchard Finance s.a.**  
Microfinance Investment Advisers

**Reducing Barriers for Investment in Microfinance: The Role of  
Structured Finance, Rating and Benchmarking**

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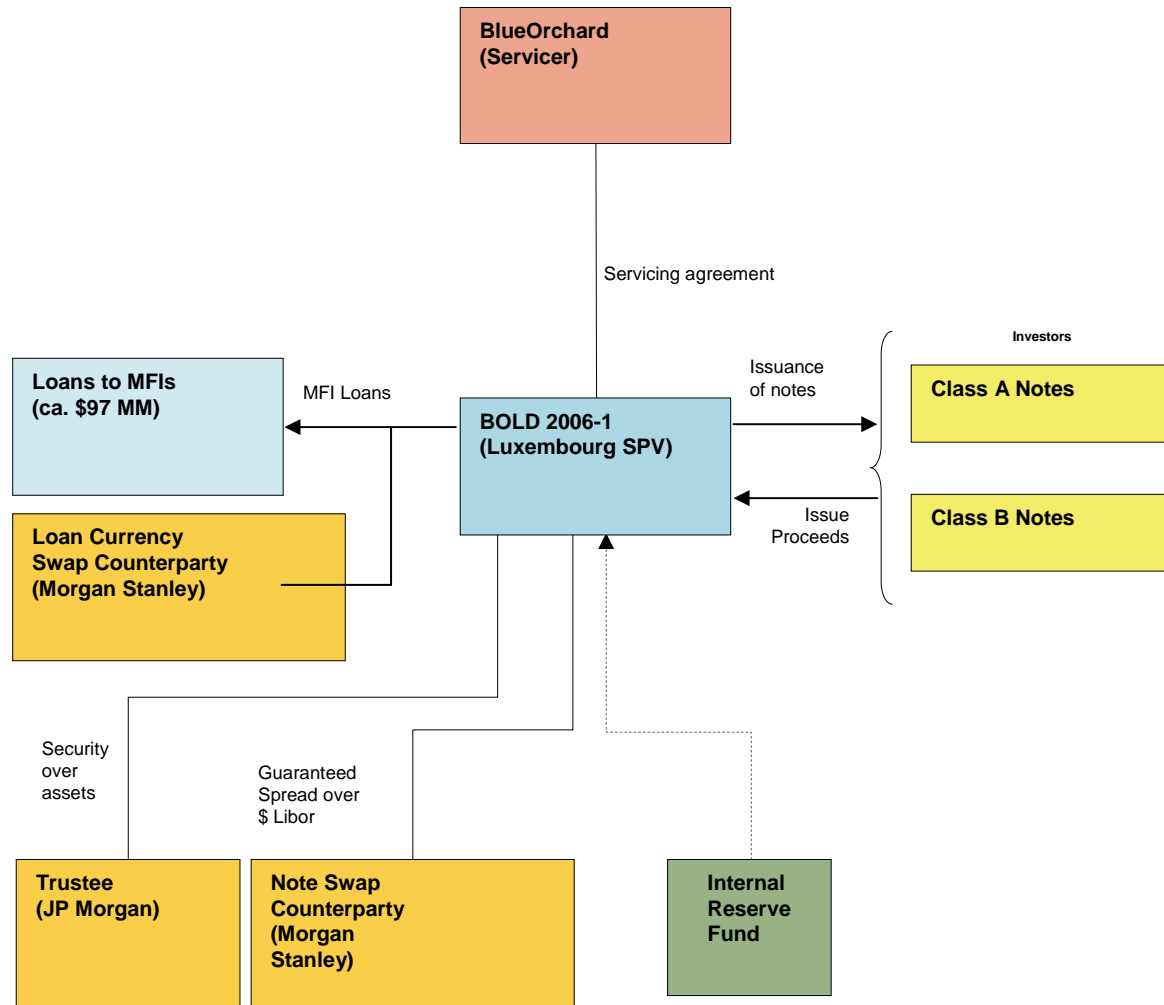
**BOLD 2006-1 Securitization**

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21 September 2006  
Frankfurt, Germany



## BlueOrchard Loans for Development 2006-1





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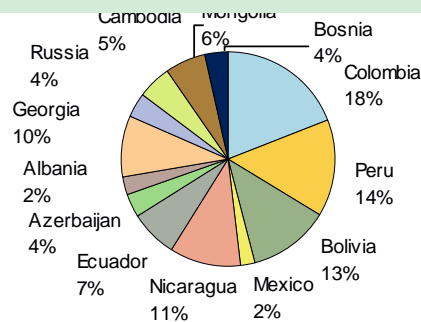
- **BOLD 2006-1 CLO Basic Parameters**

- Notes issued by Luxembourg investment company (SPV) in April 20th 2006
- Repayment of the notes is based on Loans made by the SPV to 21 MFIs in 13 countries for a total of USD 96+mm
- Targeting the best MFI worldwide with 5-year debt at fixed rate
- Total Assets of the CLO were USD 99MM
- Two Classes of Noteholders (senior holding 70% and subordinated taking 30%)
- Senior Noteholders comprised primarily by mainstream institutional investors (for many the first time participating in a Microfinance securitization)
- Subordinated Notes fully underwritten by FMO and subsequently placed among various development banks
- Morgan Stanley as arranger and placement agent
- 25% of portfolio extended in local currency, fully hedged FX risk for investors

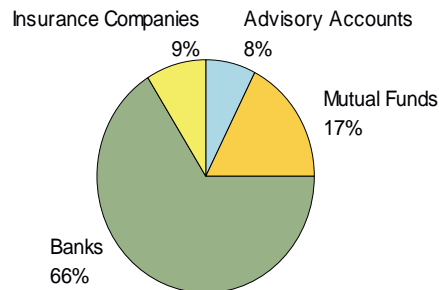


## BlueOrchard Loans for Development 2006-1

### Country Diversification



### Distribution By Account Type



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- Total Active Clients of MFIs 1.2MM
- Average Par > 30 at closing of MFIs 1.8%



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- **BOLD 2006-1: Why use Structured Finance Facility**

- Ability to raise significant amounts of money faster than traditional Microfinance funds (more attractive to institutional investors)
- Ability to provide different risk and return to different profiles of investors
- Subordination provides senior note-holders with a safe first investment in Microfinance as for some senior investors this was their first participation in Microfinance
- The participation of a high profile investment bank broadens the list of potential investors
- Participation of Morgan Stanley (as swap provider) enabled BOLD to place local currency loans (fully hedged for investors) in Mexican Pesos, Colombian Pesos and Russian Roubles
- Structure more appropriate to introduce Microfinance as a separate non-correlated asset class for main stream capital markets investors.
- Ability to place relatively large loans to strong, fast growing MFIs
- Economies of scale for financial intermediation



## **BlueOrchard Loans for Development 2006-1**

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### **• BOLD 2006-1 Main Challenges**

- Negotiate interest rates on loans to 21 MFIs, simultaneously as negotiating returns to investors on notes in fast changing financial market environment
  - Most MFIs cost of funding are not directly affected by changes in the capital markets interest rates
  - Soft lending still predominant in Microfinance
- Size of transaction is relatively small size for CLOs
- Adverse national laws for FDI in Microfinance
- Documentation is heavy compared to what most MFIs are used to
- Convince main-stream investors of the credit quality of MFIs
  - small companies operating in difficult countries in a new sector for investors
  - MFIs mostly unrated by mainstream rating agencies
- Trying to place CLO without mainstream rating
  - Lack of industry data
  - Many investors interested but did not participate because they could not risk weight the investment efficiently for BASEL compliance
  - Lack of a secondary market for the notes



## **BlueOrchard Loans for Development 2006-1**

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### **Future CLO Objectives**

- Provide mainstream rating for the CLO structure (at least for senior class)
  - This will require more involvement of the mainstream rating agencies for ratings or “estimates” of the underlying MFIs.
- Provide more local currency loans (to the extent it is possible to hedge these loans)
- Provide more tranches to allow investors a greater choice in terms of risk-return profile
  - Include more commercial investors
  - Some investors may be willing to take greater risk in future issuances
- Maybe provide subordinated-debt loans in future structures as this can provide greater capital for some MFIs and enable future growth
  - Some MFIs are relatively highly levered
  - Subordinated debt is not always very subordinated to senior unsecured debt
- Larger issuances