

the Guarantors Digest

June 2013

Much has happened since our last Digest. In February, we issued our 100th loan. This is a wonderful milestone and speaks to our continued commitment to reducing global poverty.

On January 22, 2013, we inked an agreement with Freedom from Hunger to form a new alliance to provide health education and services in the developing world. MCE and Freedom from Hunger share a belief in the positive effects of integrating health-related services and microfinance programs. Freedom from Hunger, with its experience in education and health product development, and MCE, with its experience in identifying, funding and monitoring MFIs in over 20 countries, will now work together to leverage the strengths of both institutions.

We have made major progress over the last few months on a strategic plan that will guide the organization forward over the next several years. We formed a Strategic Planning Committee, consisting of MCE management, Board Members, and Guarantors. Chris Dunford, former MCE Board Member and current adviser to our Loan Committee, agreed to coordinate this planning effort. The committee's work is expected to culminate in a recommendation to the Board in July. We are excited about the new opportunities that this is expected to unveil for MCE.

In Europe, Guarantor John Ayliffe and our Swiss-based partner, 1 to 4 Foundation, added two new MCE guarantors. John continues to play a vital role in our outreach in Europe.

To help manage our growing portfolio, we were delighted to add a new Vice President, Tala Abbasi. A native Californian with an M.B.A., Tala comes to us from her work with small and medium enterprises in Kurdish Iraq. We are thrilled to have her onboard.

At the same time, we are losing two MCE stalwarts. EVP Kyle Salyer is joining KIPP Schools L.A. as Director of Finance. Later this summer, Ayesha Wagle will join Komaza as President. Both have been huge contributors to MCE's success and both leave to take on great new challenges in the fight for social progress.

Guarantor Kevin Carnahan, formerly Global Managing Director at Accenture, has been named Interim Chief Financial Officer to cover Kyle's responsibilities. Working with the Board, I will focus over the course of the summer on ensuring that MCE is staffed for growth, effective implementation of our strategic plan and a very bright future.

In not so good news, one of our 37 microfinance institution borrowers partially defaulted on its obligation to us (see Portfolio update, below). That said, we achieved partial recovery, and the required tax-deductible contribution per Guarantor is now fixed at \$4,540.

Warmly,



Gary M. Ford

MCE Statistics:

Cumulative total in loans to date: **\$58.9 million**
Dollar weighted default rate: **0.7%**
Number of countries where MCE has made loans: **24**

Guarantor Spotlight

In each issue, we highlight an MCE Guarantor to learn about the work he or she is involved in and how becoming a MicroCredit Guarantor has affected their lives. This month, we're highlighting Alan and Teri Hoops.



What projects are you currently working on?

Teri and I are extremely grateful for our ability to give back and work with organizations that are committed to making permanent change in the lives of others. Apart from our work with MCE, we have been working with Olive Crest and the Families Forward program in Orange County to help families in crisis regain stability and self-sufficiency. Raising awareness and supporting their transitional housing, career counseling and food assistance programs consumes about 75 percent of our time.

There are a couple of attributes that these organizations, MCE, Olive Crest and Families Forward, share—a commitment to developing sustainable and positive changes for families and the wonderful integrity of the people and clients involved.

What inspired you to become more philanthropic in your lives?

We are extremely grateful for the blessings we have obtained. Both Alan and I came from modest backgrounds and were able to achieve a level of personal success that has allowed us to give back and work with organizations that inspire us.

Why did you decide to become an MCE Guarantor?

Our first motivation was meeting Jonathan Lewis. Alan met Jonathan several years ago, learned about his life and witnessed his knack for identifying needs and the unique model and creativity he uses to meet those needs. As Teri and I have become more actively involved with MCE, joined the team on study missions to Peru and Guatemala and hosted meetings for potential Guarantors, we have developed a whole new perspective on family, empowering others and our responsibility as global citizens.

MFI Loan Portfolio Update

You should have received two letters in the mail that explain the Credituyo situation, one of our MFIs in Mexico. As we detailed, MCE and other international lenders worked hard to mitigate losses and reached an agreement to assign the respective debts to an organization called "SOLFI," which purchased assets of Credituyo, in exchange for payments equal to 40 percent of the outstanding principal amount of the loans. As a result, MCE settled its claim and the MCE Board of Directors declared Credituyo in permanent default on its loan and approved the settlement agreement.

With the settlement approved, the final loss on the loan and the amount of the tax-deductible contribution per Guarantor could be finalized. Because we collected over \$200,000 in the settlement process, the individual Guarantor contributions were substantially lower than our earlier "worst case" estimate of \$7,000 to \$8,000.

MCE's Loan Committee recently approved a \$200,000 loan to a socially motivated MFI in Haiti, Fonkoze. At the recommendation of Management, this loan was approved on a non-guaranteed basis because of the challenging context in which Fonkoze conducts its operations, as well as the credit risk of the MFI. Until now, MCE's non-guaranteed lending has been limited to Sub Saharan Africa. With this loan, however, MCE's Board expanded our non-guaranteed lending to other "highly distressed and operationally challenged" regions. MCE remains committed to its goal of reaching the world's most impoverished through microfinance, and we believe a loan to Fonkoze achieves this goal.

In response to the developments with Credituyo, MCE created a new classification of loans, known as Impaired loans, which is a category that will include loans that have experienced an event of default or have a high likelihood of defaulting in the future.

In addition to signaling a greater level of risk between MFIs that are classified as Impaired and those that are on the Watch List, the Impaired category will also allow MCE to insulate incoming guarantors from future losses that may arise on Impaired loans. Specifically, any guarantor that signs a Philanthropic Guarantee Agreement after a loan is classified as Impaired, will not be responsible for any future losses that may incur on these loans. The intent of this policy is to encourage new Guarantors to join MCE's guarantee pool even when there may exist a doubtful loan in the portfolio.

In parallel, MCE will now implement a more liberal approach to placing MFIs on the Watch List. MFIs that warrant increased management attention for a variety of reasons, but who are not necessarily at risk of default, will now be placed on the Watch List.

As a result of the more liberal Watch List policy, the following MFIs will be added to the Watch List -- Asociación Arariwa in Peru, which is facing changing market dynamics and Azeri Star in Azerbaijan, whose parent company, Save the Children, is seeking to divest its interest in the MFI.

Ayesha Wagle, Pierre Berard and Tala Abbasi recently returned from a variety of due diligence visits, including trips to Sierra Leone, Albania and the Philippines. For client stories from their visits, please visit the [MCE blog](#).



New Strategic Initiative

MCE is currently working to develop its own social performance metrics to more clearly assess the social performance of its MFIs. The tool will incorporate materials being produced by the Social Performance Task Force and the SMART Campaign, two groups addressing the issue of social performance in the microfinance sector.

Finances

Since our last report, we have added three new Guarantors. We now have a total of **71 Guarantors** in the program, representing **\$79 million in guarantees.**

Calendar/Resources

Hosted gatherings offer unique opportunities to create new relationships attract potential Guarantors and inform them about MCE's innovative approach to alleviating global poverty. Guarantors, who are interested in hosting a gathering, please contact Sara Hall, at sara.hall@mcenterprises.org or 617.803.3384. Sara will help with the preparations and make the event easy to coordinate. See below for information about upcoming MCE events.

California Gathering

Date: Mid-May 2013

Location: Eleos Foundation, Santa Barbara, CA

Gary will host a series of guarantor calls in the next few months. They take place on Wednesdays beginning at 9 AM PST and last for an hour. To participate, dial in with the following information; 800-410-3590 and pass code 6873459#.

Dates: Wednesday, July 24, 2013

Wednesday, November 20, 2013

As a reminder, our MCE intranet site includes a calendar of upcoming events and a Guarantor Resources section, where you can download key documents, such as the Guarantor Informational Booklet and the Philanthropic Guarantee Agreement (PGA). Here is the [link](#).

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