

Fundación Realidad AC
Non-Profit Organization
México
December 2006 Report
Contacts
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PERFORMANCE RATING
β

 Date of Rating **March 2007**
 Previous Rating **β –**
 Date of Previous Rating **December 2004**
 Future Prospects

α ++		
α	α+	
	α	
	α-	
β	β+	
	β	FRAC
	β-	
γ	γ+	
	γ	

Principal Performance's Indicators

	Dec-05	Dec-06
Gross Loan Portfolio*	\$2,735	\$3,689
Number of Clients	8,459	10,838
ROE**	13.0%	8.7%
Portfolio yield	63.7%	60.5%
Portfolio at Risk	4.9%	2.4%
Operative Expense	43.9%	42.4%
Average Loan Balance	\$323	\$340
Borrowers per staff	121	143

* (000 \$)

** Adjusted

Descriptive Summary

Fundación Realidad AC (FRAC) is a non-profit NGO founded in 1997 as the microcredit and business development arm of World Vision Mexico. Although it serves non World Vision clients its focus is on World Vision members and their families.

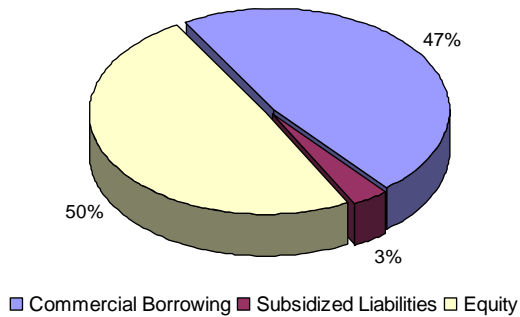
As of December 2006, FRAC had a portfolio of almost \$3.7 million and 10,838 active clients. The foundation serves a market niche with small loans (average loan size of \$340) in relatively unattended markets. The foundation offers both village banking loans and solidarity loans from 12 regional offices. Its geographic extension is large – ranging from Tijuana on the US boarder to Oaxaca in southern Mexico with a focus on central Mexico.

Highlights
POSITIVE

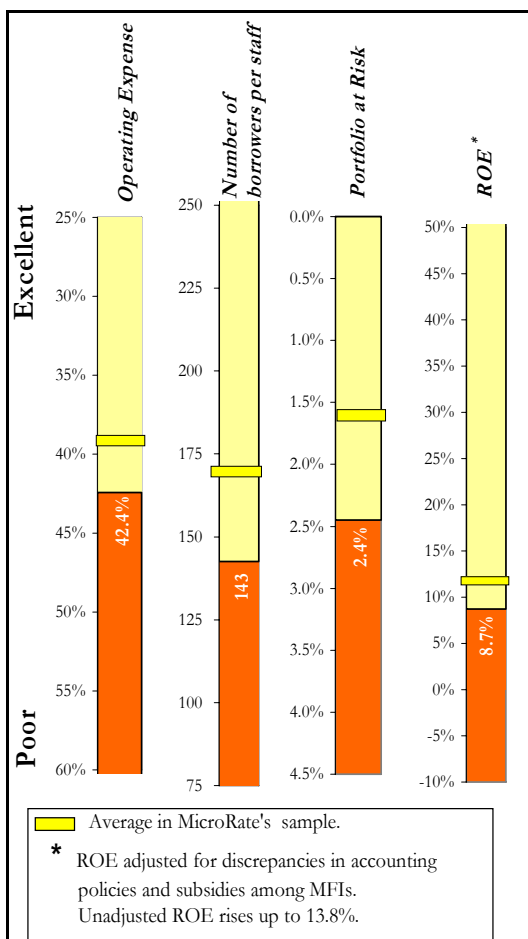
- Large untapped market
- Solid capital structure
- Improving portfolio quality
- Committed personnel

Negative

- Inconsistent application of policies and lending methodology
- Inadequate risk management for such a geographically extensive branch network
- Underdeveloped information systems and reporting tools
- Funding sources not diversified and too dependent on Mexican government

Fundación Realidad AC
MEXICO
December 2006
Funding Sources

Rating Rationale

FRAC continues to be a moderately profitable microfinance institution (MFI) with a conservative financial structure. The institutions operations and loan methodology have improved since its last rating at the end of 2004. In particular the Solidarity Group loan products have gotten better as evidenced by a marked increase in their portfolio quality. Nonetheless, the application of the lending methodologies are inconsistent. Overall portfolio quality has improved dramatically from a year ago but remains below the MicroRate Group Methodology Sample average.

Performance Rating -
MicroRate Group Loans Sample¹


Organizationally the institution has a centralized management team that has been reinforced by people with field experience to make up for the General Manager's limited microfinance experience. Centralization has resulted in a cumbersome loan approval process and lower than average operating efficiency. Moderate growth has been fueled by an expanding network of field offices spread throughout Mexico. A limited information system, weak internal controls and poor personnel training are key risks factors that could affect healthy growth.

The foundation, although legally independent, depends heavily on the Mexican subsidiary of the World Vision network – Vision Mundial Mexico. Strategically, FRAC is well positioned in the enormous Mexican market. The board, however, is dominated by Vision Mundial which may limit growth in favor of supporting its development programs throughout Mexico.

Financially, FRAC has healthy margins and moderate profitability given its low leverage. Liquidity is low, but FRAC has access to credit lines. Funding sources are not well diversified, with almost all funding coming from the Mexican government and World Vision. In spite of the lack of diversification, the institution has a good balance of long- and short term funding, no term mismatch or interest rate risk, and very limited currency exposure.

¹ Compared to all MFIs rated by MicroRate in Latin America with a group lending methodology.