



Frequently Asked Questions About MicroCredit Enterprises

This selection of questions is about MicroCredit Enterprises, its goals and organizational operations. Questions concerning our Guarantors, their role and responsibilities and questions regarding the basic MicroCredit Enterprises program model are addressed at the MicroCredit Enterprises website. Thus, the responses in this FAQ assume that the Reader has read the material on the MicroCredit Enterprises website.

For questions about microfinance generally, microcredit and how and why it works, see Frequently Asked Questions at the Microfinance Gateway website and/or the Microfinance Overview posted at the MicroCredit Enterprises website.

Important Note: Information provided in this document is not intended to be tax or legal advice. Please consult a qualified tax or legal advisor. MicroCredit Enterprises LLC is not a socially responsible fund or an investment of any kind. MicroCredit Enterprises is not operated as a profit-seeking venture for the benefit of any individual or institution.

Loans to Microfinance Institutions

Question: What percentage of the money structured by MicroCredit Enterprises actually gets to the overseas microfinance institutions?

Answer: One hundred percent (100%). All funds borrowed by MicroCredit Enterprises are, in turn, applied to overseas microfinance loans.

Question: How does MicroCredit Enterprises ensure that loans to overseas microfinance institutions reach the people who need them?

Answer: MicroCredit Enterprises only makes loans to microfinance institutions with proven track records and transparent policies. For example, a microfinance institution has to have been in operation 5 years, already

have at least 5,000 poor women borrowers and be associated with a respected microfinance network (a U.S.-based non-profit organization that works with microfinance institutions in other countries). If we have doubts that loans won't help the truly impoverished, we don't make the loan.

Question: Does MicroCredit Enterprises target a certain level of poverty?

Answer: Yes. MicroCredit Enterprises is deeply committed to reaching microfinance institutions serving poorer, more rural, more isolated women and their children. Typically, these are individuals surviving on a \$1.00 per day or less.

Question: What actions does MicroCredit Enterprises take to reduce the high level of interest paid by women borrowers?

Answer: At 35% to 40%, microcredit loan interest rates charged to women borrowers are a huge improvement over the loan interest rates charged by predatory loan sharks, which are often as much as 120%; and, indeed, often the predatory lenders simply refuse to lend to women at all..

The major fiscal drivers which require local microfinance institutions to charge high interest rates are (a) the expensive transaction costs of distributing and collecting large numbers of very tiny loans and (b) the lack of organizational scale. The margins are thin, and interest rates charged by a microfinance institution are unlikely to decrease until the microfinance institution is quite large, operationally sustainable and is serving more clients.

Hence, MicroCredit Enterprises focuses on supplying growing microfinance institutions with the expansion capital they need to achieve economies of scale. Without sacrificing or undercutting local control or autonomy, MicroCredit Enterprises gives local decision-makers the tools they need to reach more clients, grow larger and bring microcredit interest rates in line with local lending practices.

Question: Is the microfinance institution loan application process transparent, open, efficient and fair?

Answer: Yes. The entire microfinance institution loan application process, eligibility criteria, timelines, basic loan documents, etc. are all posted on the MicroCredit Enterprises website. Generally speaking, the MicroCredit Enterprises loan application process is faster and simpler than for comparable organizations.

Question: Does MicroCredit Enterprises employ accepted industry standards for conducting due diligence on overseas microfinance institutions?

Answer: As a practical and operational matter, microfinance industry standards for conducting due diligence are still largely uneven and unformed. MicroCredit Enterprises employs an innovative, dual track process for conducting due diligence. MicroCredit Enterprises (a) conducts a rigorous review of each microfinance institution's financial and performance records plus (b) only makes loans to microfinance institutions with proven track records and stable, trustworthy management as verified by a collaborating and respected microfinance network.

Question: Does MicroCredit Enterprises make loans to microfinance institutions within the United States?

Answer: No. MicroCredit Enterprises is hopeful that the tools of microfinance can and will work in the industrialized world, but the indispensable market niche for MicroCredit Enterprises is microloans to severely impoverished women in the developing world. In order to do the most good and to protect the creditworthiness of our overseas loan portfolio by focusing our expertise and experience, MicroCredit Enterprises only makes loans to microfinance institutions in developing countries.

Question: Are there countries, such as nations with Communist governments, in which MicroCredit Enterprises refuses to operate?

Answer: MicroCredit Enterprises principal criteria for making loans are the needs of poor people and the creditworthiness of the local microfinance institution. MicroCredit Enterprises does not work with or through governments. Of course, MicroCredit Enterprises cannot make loans that contravene any U.S. laws.

Question: Are MicroCredit Enterprises' loans to overseas microfinance institutions protected from foreign currency fluctuations and/or devaluations?

Answer: MicroCredit Enterprises loans are issued and repaid in U.S. dollars. Thus, foreign currency risk is borne by the microfinance institution. However, if a microfinance institution unwisely does not protect itself against local currency devaluations, it may be unable to repay a loan from MicroCredit Enterprises.

Organizational Structure and Policies

Question: What are the administrative and overhead costs for MicroCredit Enterprises?

Answer: MicroCredit Enterprises operates a lean, efficient organization. The total organizational operating budget for 2006 is under \$150,000.00, or less than five percent (5%) of total projected loans to microfinance institutions. MicroCredit Enterprises does not currently operate a “bricks and mortar” office.

Question: Does MicroCredit Enterprises have published governance procedures, conflict-of-interest policies, operating budgets, etc. that are open to public scrutiny?

Answer: Yes. The MicroCredit Enterprises Operating Agreement, Conflict-of-Interest Policy, financial audits, the annual budget and all operating procedures are posted at the MicroCredit Enterprises website.

Question: Does MicroCredit Enterprises earn profits from microfinance institution loans?

Answer: No. MicroCredit Enterprises does not profit from its loans to microfinance institutions and is not a financial conduit for creating economic value for anyone seeking profits. MicroCredit Enterprises operates as a not-for-profit and does not generate profits. There are investment vehicles that do derive profits from loans to severely-impooverished women and families. MicroCredit Enterprises is not such a vehicle.

Question: Why is MicroCredit Enterprises, which exists for a philanthropic purpose, not structured as a non-profit, charitable organization?

Answer: MicroCredit Enterprises does not solicit or accept charitable contributions so there is no rationale to incorporate as a 501(c)(3), tax-exempt organization. Individuals, institutions and foundations which wish to support microfinance with a tax-deductible donation are directed to the MicroCredit Enterprises Fund, Inc. which is a 501(c)(3) organization that has applied for tax-exempt status.

Question: Why does MicroCredit Enterprises waive the copyright on all its procedures and policies?

Answer: In the spirit of doing everything possible to alleviate poverty, MicroCredit Enterprises places its work products, procedures and policies into the public domain. Our hope is that other social entrepreneurs will

improve upon our work and, thereby, further reduce global poverty and human suffering.

Question: Is MicroCredit Enterprises aligned with any particular microfinance organization, government agency or other institution?

Answer: No. MicroCredit Enterprises is an independent organization.

Guarantor Issues and Concerns

Question: Is MicroCredit Enterprises a Socially-Responsible Investment (SRI)?

Answer: No. MicroCredit Enterprises is not an investment or investment fund of any kind. Because MicroCredit Enterprises is not an investment or investment fund, the concept of Return on Investment or ROI is not applicable, as with a SRI. While the Guarantor provides collateral to secure lines of credit extended to MicroCredit Enterprises, the Guarantor maintains control and independently invests his or her assets to achieve whatever ROI objective he or she sets for him or herself. The Guarantor is not expected to accept a lower ROI because he or she is supporting microfinance anti-poverty programs. Further, unlike SRI funds which are often fixed term investments, MicroCredit Enterprises offers Guarantors the opportunity with a reasonable notice to withdraw at any time from the program. For more details, please read the MicroCredit Enterprises Comprehensive Informational Memorandum. Also, Guarantors or prospective Guarantors are encouraged to consult with a financial advisor who specializes in the SRI approach to investing.

Question: What is the financial Return on Investment (ROI) for Guarantors?

Answer: MicroCredit Enterprises is not an investment opportunity. Guarantors are not directly compensated in any way by MicroCredit Enterprises for the use of collateral assets as security. MicroCredit Enterprises is not a financial conduit for creating economic value for Western investors looking for profits derived from loans to severely-impoverished women and families. The Guarantor maintains complete control of financial assets while simultaneously supporting microfinance economic development. The Guarantor's ROI is determined by the Guarantor and the Guarantor's investment advisor.

Question: Do charitable tax benefits exist for Guarantors?

Answer: MicroCredit Enterprises does not give tax or legal advice. Please consult a qualified tax or legal advisor. Please be aware that MicroCredit Enterprises is not a registered 501(c)(3) tax-exempt organization and, thus, does not solicit or accept charitable contributions. Donations are a traditional, commonplace and well-respected method of supporting microfinance, but MicroCredit Enterprises' unique approach is leveraging private sector assets to alleviate poverty without soliciting or accepting donations.

Question: Is a Guarantor permitted to earmark or designate a specific country, region or program as the beneficiary of the Guarantor's collateral pledge?

Answer: MicroCredit Enterprises can and will explore this possibility, however, it is not in the Guarantor's best interest to do so. One of the key features for the mitigation of risk to the Guarantor's pledged assets is sharing with other Guarantors on a pro rata basis any potential losses from defaults by the microfinance institutions to which our loans are made.. Regardless, MicroCredit Enterprises does not make loans to microfinance institutions without proven track records.

Question: Why does MicroCredit Enterprises publicly release the names of its Guarantors?

Answer: MicroCredit Enterprises is committed to a transparent model of operations, an open source architecture. MicroCredit Enterprises rejects viewing other microfinance organizations as competitors. Names are made public only with the permission of the participating Guarantor.