

Pricing, Prevarication, and Profits: Who will Protect the Poor?

Chuck Waterfield

Issues Raised in the Video

- » “There is a risk of a backlash from excessive interest rates...”
- » “Two directions: Transformation vs. Profit-Maximizing”
- » “We need to be honest and transparent...”
- » “The need for consumer education and protection...”



The good press in October 2006....

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Nobel Winner Yunus: Microcredit Missionary

**Economics professor Muhammad Yunus
wasn't afraid to turn the rules of banking
upside down**

Editor's Note: Bangladesh's Muhammad Yunus and the bank he founded, Grameen Bank, which created a new category of banking by granting millions of small loans to poor people with no collateral—helping to establish the microcredit movement across the developing world—won the Nobel Peace Prize on Friday. On its Web site, the Norwegian Nobel Committee says Yunus, 65, and the bank "for their efforts to create economic development and social progress in the developing world."





And the bad press a year later....

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Magazine



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TOP STORIES

The Ugly Side of Microlending

How big Mexican banks profit as many poor borrowers get trapped in a maze of debt

- [The Dark Side of Microfinance](#)
- [Plus: Wal-Mart Banks on the 'Unbanked'](#)
- [Plus: Compartamos: From Nonprofit to Profit](#)

Google and the Wisdom of Clouds

A lofty new strategy aims to put incredible

Pricing, Prevarication, Profits, and the Poor

- » **Pricing:** *Actually, it's all about the price*
- » **Prevarication:** *But few really know what the price is*
 - Prevaricate (v): to speak falsely or misleadingly; deliberately misstate or create an incorrect impression; lie
- » **Profits:** *How much is too much?*
- » **Who will Protect the Poor?** *The need for transparency, ethics, and consumer protection efforts*

Financial Services for the Poor

3000 years on one slide

Financial Services for the Poor

3000 years on one slide



**Profit-Maximizer
Business**

Moneylenders

From 1000 BC - Present
"Credit Usury"

Financial Services for the Poor

3000 years on one slide



NGO “projects”

1970's – 1980's

Credit-and-training

Very low interest

Moneylenders

From 1000 BC - Present

“Credit Usury”



Financial Services for the Poor

3000 years on one slide



NGO “projects”

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MFIs

1990's- 2000's

Sustainable
Credit-led
Moderate interest

Moneylenders

From 1000 BC - Present
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Financial Services for the Poor

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Moneylenders

From 1000 BC - Present
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“Transformation” (for-profit institutional transformation!) enters the picture
1992: BancoSol, first commercial bank (ACCION)
1999: USAID Position Paper says no future for NGOs



Financial Services for the Poor 3000 years on one slide



NGO “projects”

1970's – 1980's

Credit-and-training
Very low interest

Social
Business

MFIs

1990's- 2000's

Sustainable
Credit-led
Moderate interest

Profit-Maximizer
Business

Moneylenders

From 1000 BC - Present
“Credit Usury”

Frequent reference to:

“Microfinance Enters the Marketplace”



Financial Services for the Poor 3000 years on one slide



NGO "projects"

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Credit-and-training
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Social Business

MFIs

1990's- 2000's

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Profit-Maximizer Business

Moneylenders

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Commercial Business

The future?
Maximum interest
Maximum profit
Private sector profit

Financial Services for the Poor

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Moneylenders

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“Credit Usury”

Commercial Business

The future?
Maximum interest
Maximum profit
Private sector profit

Some MFIs are now blurring the lines between microfinance and moneylending



Financial Services for the Poor

3000 years on one slide



NGO “projects”

1970's – 1980's

Credit-and-training
Very low interest

MFIs

1990's- 2000's

Sustainable
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Moneylenders

From 1000 BC - Present
“Credit Usury”

Commercial Business

The future?

Maximum interest
Maximum profit
Private sector profit

Pricing, Prevarication, Profits, and the Poor

- » **Pricing:** *Actually, it's all about the price*
- » **Prevarication:** *But few really know what the price is*
 - Prevaricate (v): to speak falsely or misleadingly; deliberately misstate or create an incorrect impression; lie
- » **Profits:** *How much is too much?*
- » **Who will Protect the Poor?** *The need for transparency, ethics, and consumer protection efforts*



Factors Influencing Prices

» **Interest rates:**

- Declining balance
- Flat interest

» **Fees:**

- Up-front
- Weekly/monthly
- Percentages and Flat Amounts

» **Compulsory savings**

Effective Interest Rates

- » Often called the APR (Annual Percentage Rate)
- » Shows the equivalent declining balance interest rate (no fees) that would give the equivalent cost for the client

Effective Interest Rates - An Example

» What client hears:

- 4% per month interest
- 4% up-front fee
- 20% going into a savings account, returned at the end of the loan

» What the APR is:

- 120% not counting the savings
- 183% including the savings

We aren't the first to do this.

“The Truth in Lending Act (TILA) of 1968 is a United States federal law designed to protect consumers in credit transactions by requiring clear disclosure of key terms of the lending arrangement and all costs.”

Wikipedia

Pricing Analysis Tool

- » Provides graphical representation of how pricing affects client
 - Shows declining and flat interest rates
 - Shows up-front fees
 - Shows compulsory savings requirements
 - Calculates the “net loan” the client has for investment in her business

Pricing Analysis Tool

Loan Conditions

Basic Loan Conditions

Loan Amount	\$500
Term & Repay Freq.	6 Months

Pricing

	Inputs	Incremental Cost	Effective Interest Rate (APR)
Interest Method	Balance		
Annual Interest Rate	36.0%		36.0%
Up-front Fee (%)		0.0%	36.0%
Compulsory Savings (%)		0.0%	36.0%
Savings Interest Paid			

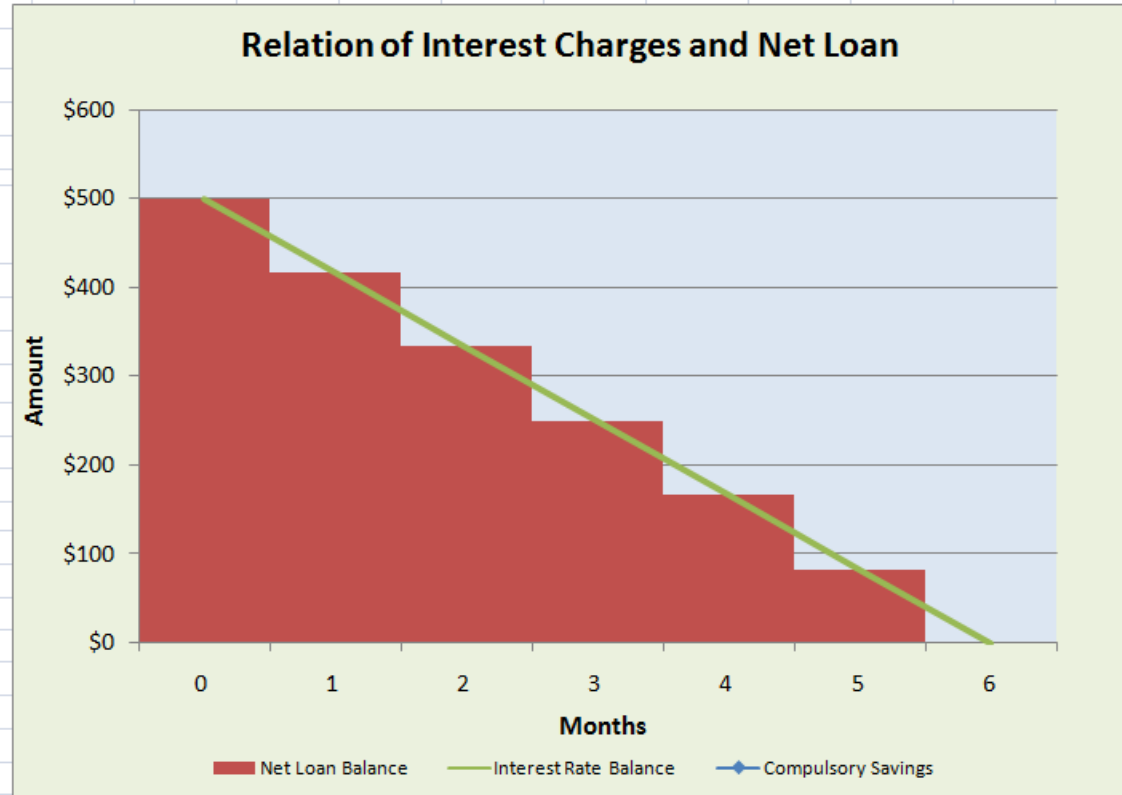
Total Financial Cost to the Client (excl. savings)

Total Interest/Fees Paid	\$53	in 6 Months
Annualized	\$105	in 1 Year
Avg net loan balance	\$292	

This is the amount the client has to invest in her business

Months with Negative Net Balance

Months:	0
% of loan term:	0%



Pricing Analysis Tool - add small fee

Loan Conditions

Basic Loan Conditions

Loan Amount	\$500
Term & Repay Freq.	6 Months

Pricing

	Inputs	Incremental Cost	Effective Interest Rate (APR)
Interest Method	Balance		
Annual Interest Rate	36.0%		36.0%
Up-front Fee (%)	3.0%	11.4%	47.4%
Compulsory Savings (%)		0.0%	47.4%
Savings Interest Paid			

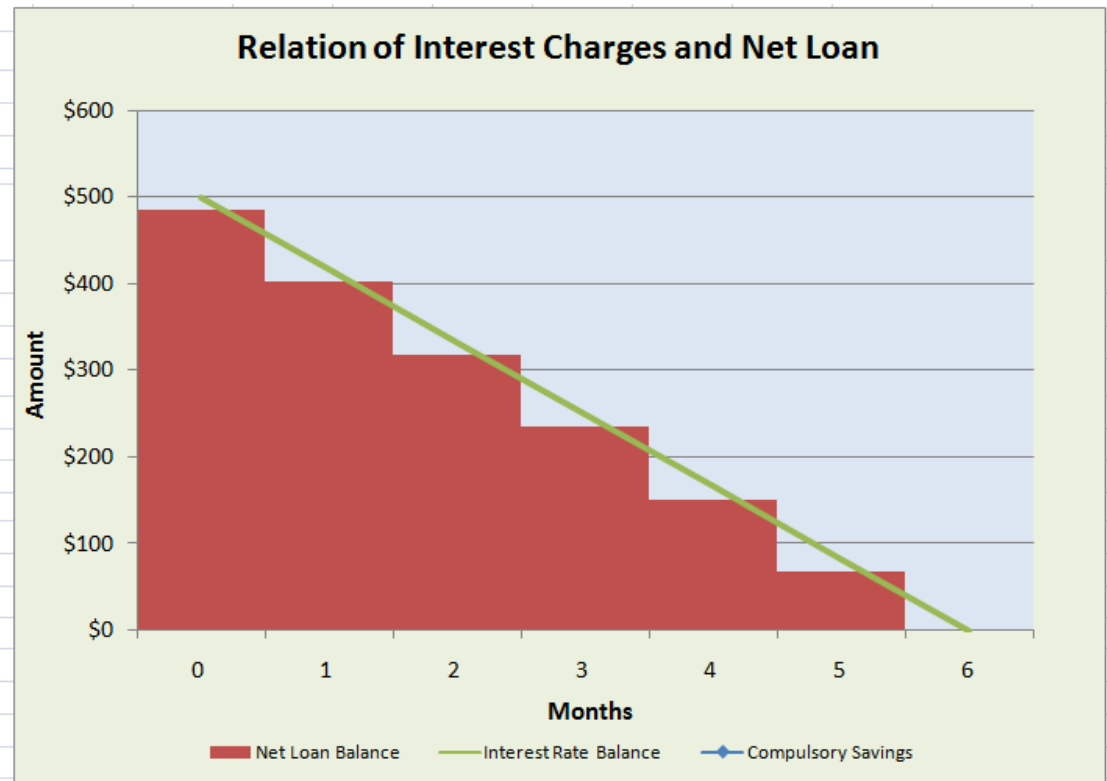
Total Financial Cost to the Client (excl. savings)

Total Interest/Fees Paid	\$68	in 6 Months
Annualized	\$135	in 1 Year
Avg net loan balance	\$277	

This is the amount the client has to invest in her business

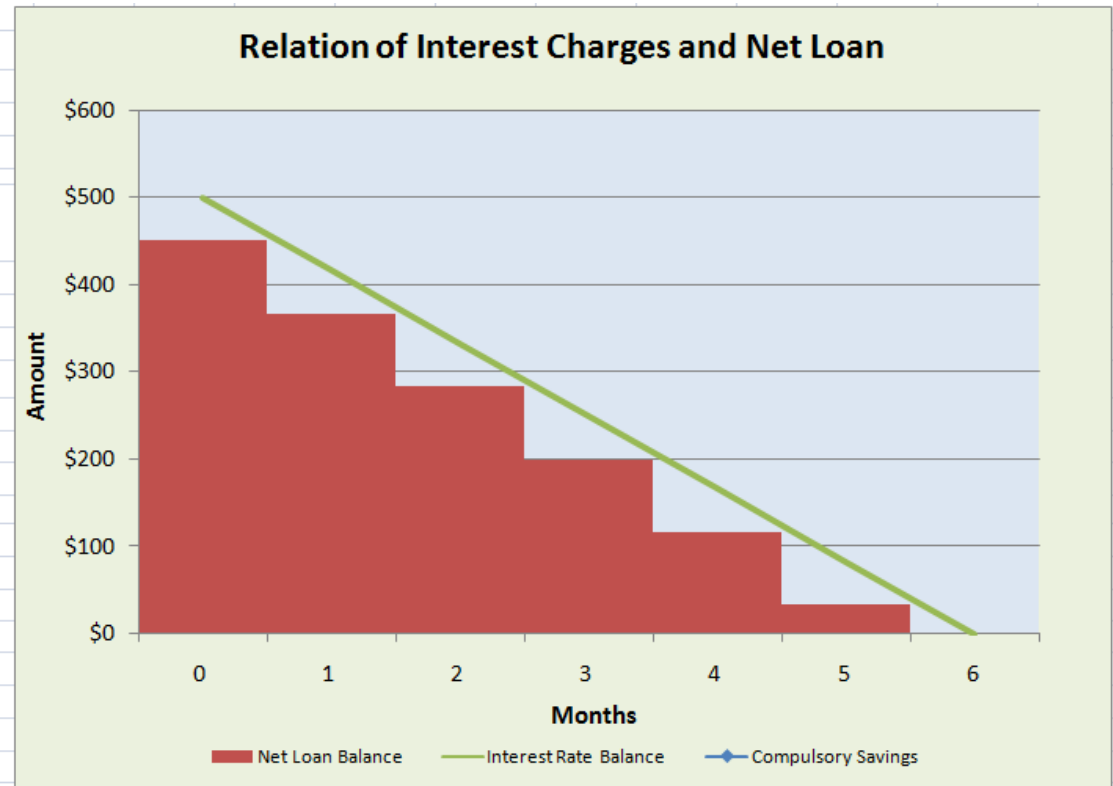
Months with Negative Net Balance

Months:	0
% of loan term:	0%



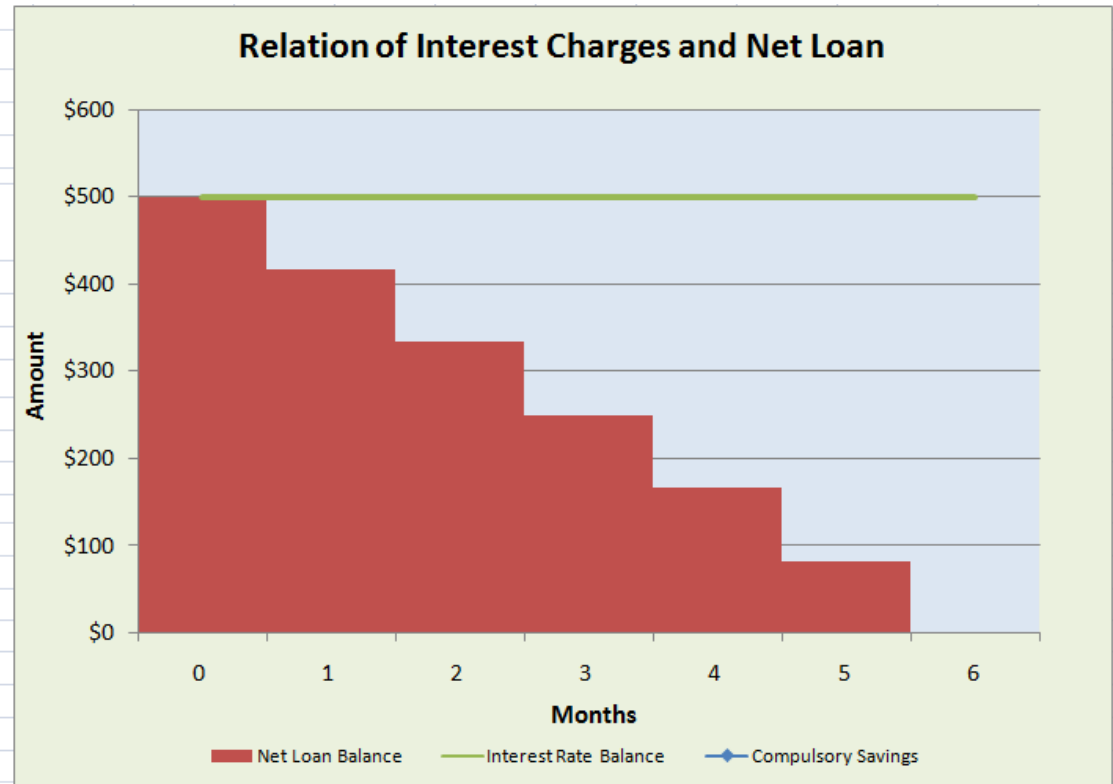
Pricing Analysis Tool - larger fee

Loan Conditions			
Basic Loan Conditions			
Loan Amount	\$500		
Term & Repay Freq.	6	Months	
Pricing			
	Inputs	Incremental Cost	Effective Interest Rate (APR)
Interest Method	Balance		
Annual Interest Rate	36.0%		36.0%
Up-front Fee (%)	10.0%	40.2%	76.2%
Compulsory Savings (%)		0.0%	76.2%
Savings Interest Paid			
Total Financial Cost to the Client (excl. savings)			
Total Interest/Fees Paid	\$103	in 6 Months	
Annualized	\$205	in 1 Year	
Avg net loan balance	\$242		
<i>This is the amount the client has to invest in her business</i>			
Months with Negative Net Balance			
Months:	0		
% of loan term:	0%		



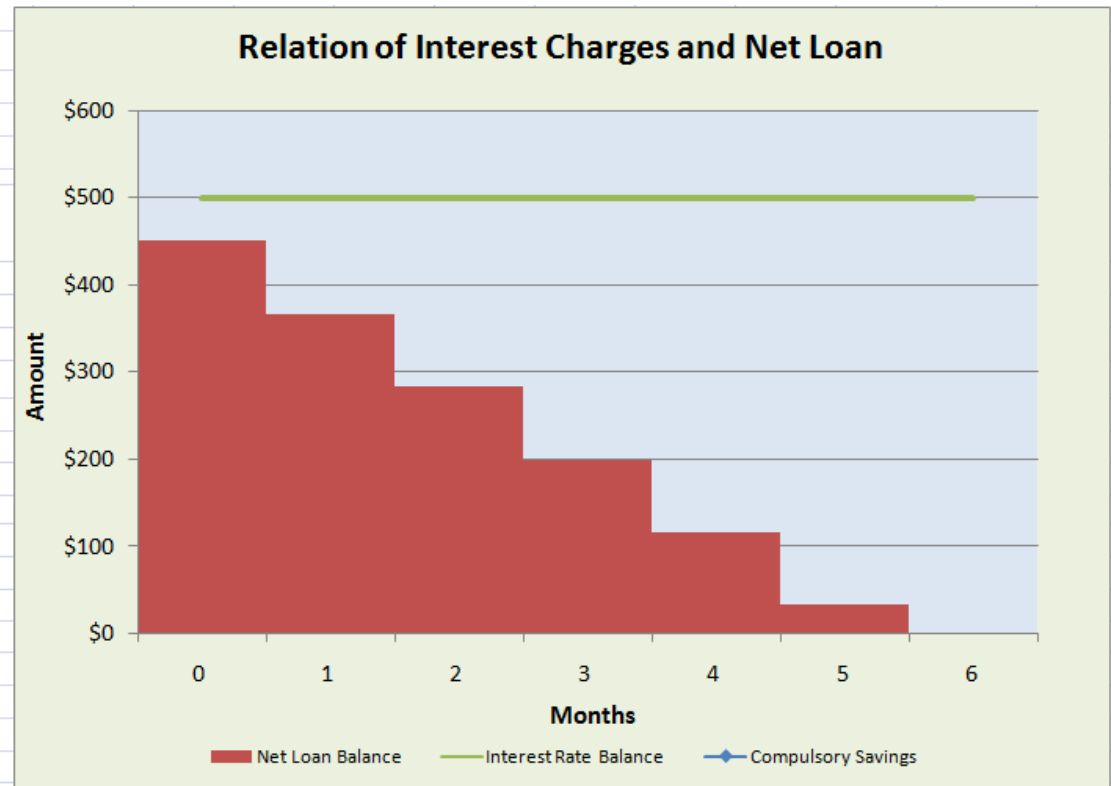
Pricing Analysis Tool - flat interest

Loan Conditions			
Basic Loan Conditions			
Loan Amount	\$500		
Term & Repay Freq.	6	Months	
Pricing			
	Inputs	Incremental Cost	Effective Interest Rate (APR)
Interest Method	Flat		
Annual Interest Rate	36.0%		59.3%
Up-front Fee (%)		0.0%	59.3%
Compulsory Savings (%)		0.0%	59.3%
Savings Interest Paid			
Total Financial Cost to the Client (excl. savings)			
Total Interest/Fees Paid	\$90	in 6 Months	
Annualized	\$180	in 1 Year	
Avg net loan balance	\$292		
<i>This is the amount the client has to invest in her business</i>			
Months with Negative Net Balance			
Months:	0		
% of loan term:	0%		



Pricing Analysis Tool - flat plus fee

Loan Conditions			
Basic Loan Conditions			
Loan Amount	\$500		
Term & Repay Freq.	6	Months	
Pricing			
	Inputs	Incremental Cost	Effective Interest Rate (APR)
Interest Method	Flat		
Annual Interest Rate	36.0%		59.3%
Up-front Fee (%)	10.0%	40.7%	100.0%
Compulsory Savings (%)		0.0%	100.0%
Savings Interest Paid			
Total Financial Cost to the Client (excl. savings)			
Total Interest/Fees Paid	\$140	in 6 Months	
Annualized	\$280	in 1 Year	
Avg net loan balance	\$242		
<i>This is the amount the client has to invest in her business</i>			
Months with Negative Net Balance			
Months:	0		
% of loan term:	0%		



Pricing Analysis Tool - comp savings

Loan Conditions

Basic Loan Conditions

Loan Amount	\$500	
Term & Repay Freq.	6	Months

Pricing

	Inputs	Incremental Cost	Effective Interest Rate (APR)
Interest Method	Balance		
Annual Interest Rate	36.0%		36.0%
Up-front Fee (%)		0.0%	36.0%
Compulsory Savings (%)	10.0%	7.2%	43.2%
Savings Interest Paid			

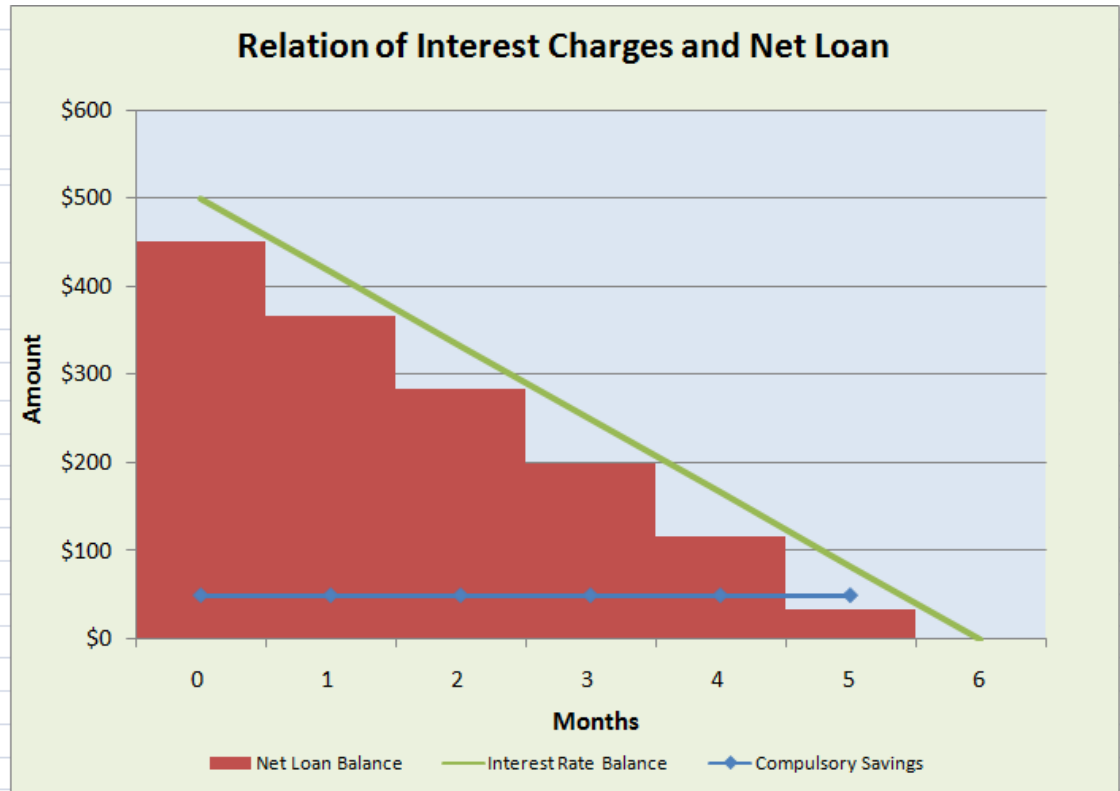
Total Financial Cost to the Client (excl. savings)

Total Interest/Fees Paid	\$53	in 6 Months
Annualized	\$105	in 1 Year
Avg net loan balance	\$242	

This is the amount the client has to invest in her business

Months with Negative Net Balance

Months:	0
% of loan term:	0%



Pricing Analysis Tool - higher savings

Loan Conditions

Basic Loan Conditions

Loan Amount	\$500	
Term & Repay Freq.	6	Months

Pricing

	Inputs	Incremental Cost	Effective Interest Rate (APR)
Interest Method	Balance		
Annual Interest Rate	36.0%		36.0%
Up-front Fee (%)		0.0%	36.0%
Compulsory Savings (%)	20.0%	17.8%	53.8%
Savings Interest Paid			

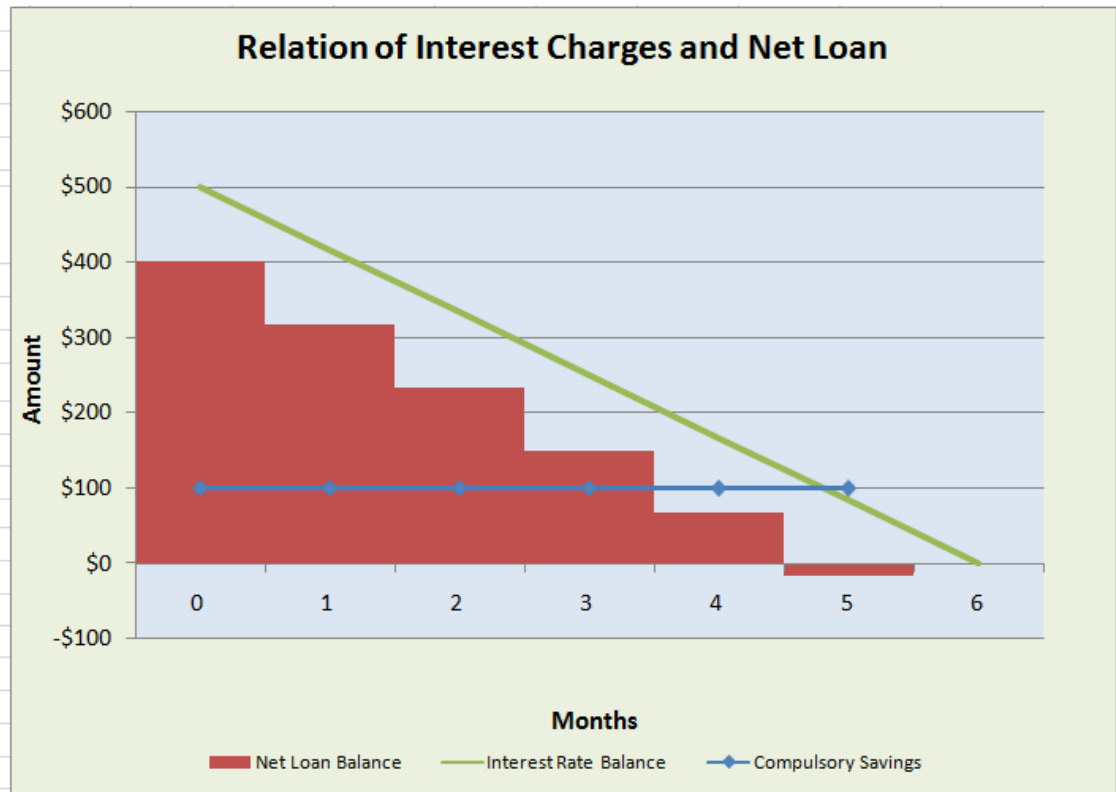
Total Financial Cost to the Client (excl. savings)

Total Interest/Fees Paid	\$53	in 6 Months
Annualized	\$105	in 1 Year
Avg net loan balance	\$192	

This is the amount the client has to invest in her business

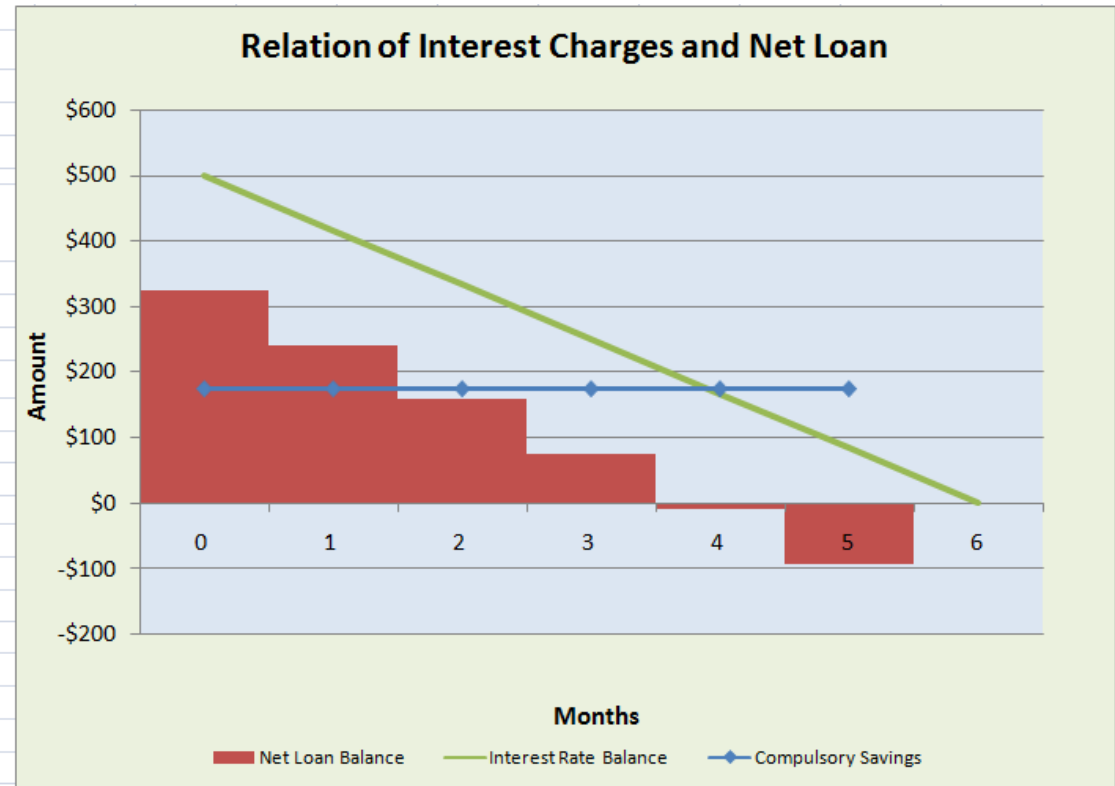
Months with Negative Net Balance

Months:	2
% of loan term:	33%



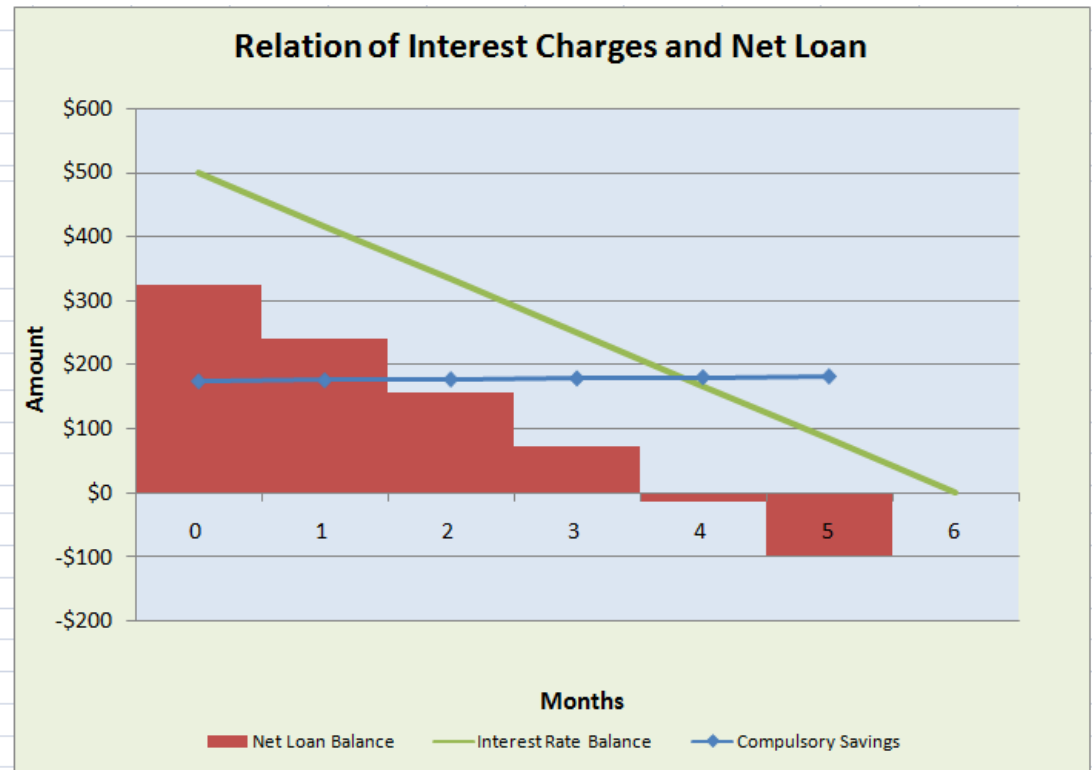
Pricing Analysis Tool - 35% savings

Loan Conditions			
Basic Loan Conditions			
Loan Amount	\$500		
Term & Repay Freq.	6	Months	
Pricing			
	Inputs	Incremental Cost	Effective Interest Rate (APR)
Interest Method	Balance		
Annual Interest Rate	36.0%		36.0%
Up-front Fee (%)		0.0%	36.0%
Compulsory Savings (%)	35.0%	47.4%	83.4%
Savings Interest Paid			
Total Financial Cost to the Client (excl. savings)			
Total Interest/Fees Paid	\$53	in 6 Months	
Annualized	\$105	in 1 Year	
Avg net loan balance	\$117		
<i>This is the amount the client has to invest in her business</i>			
Months with Negative Net Balance			
Months:	2		
% of loan term:	33%		



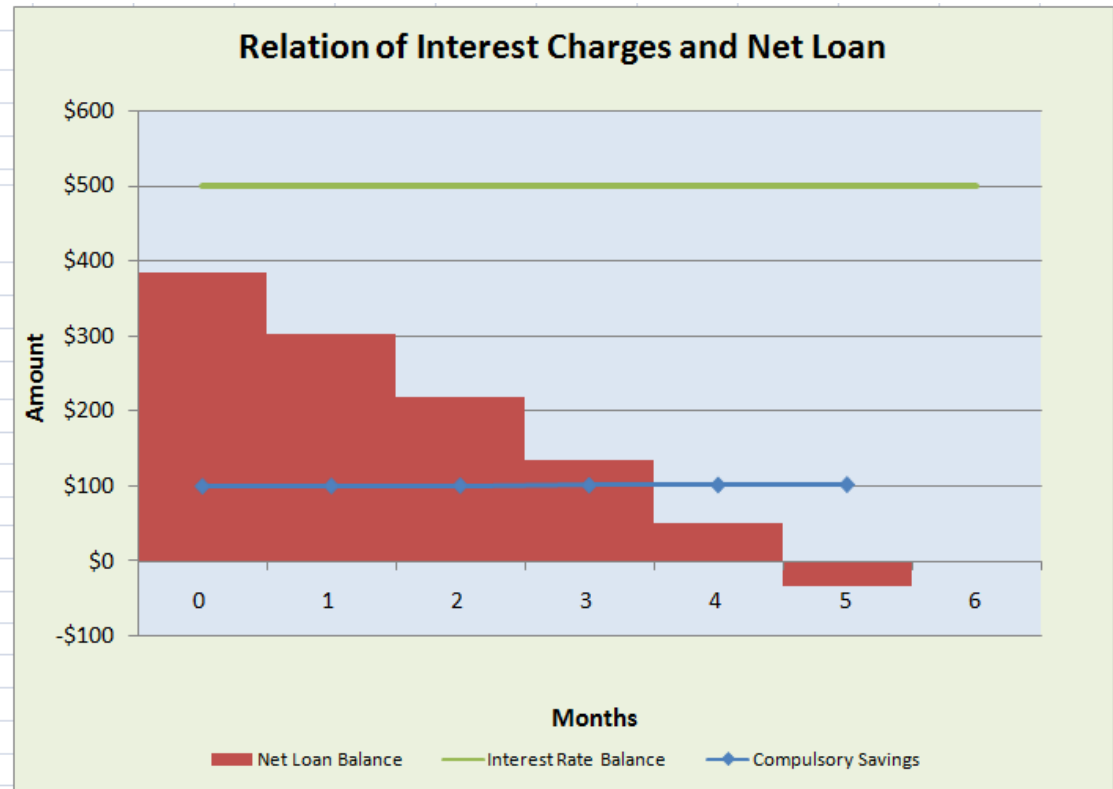
Pricing Analysis Tool - interest on sav

Loan Conditions			
Basic Loan Conditions			
Loan Amount	\$500		
Term & Repay Freq.	6	Months	
Pricing			
	Inputs	Incremental Cost	Effective Interest Rate (APR)
Interest Method	Balance		
Annual Interest Rate	36.0%		36.0%
Up-front Fee (%)		0.0%	36.0%
Compulsory Savings (%)	35.0%	36.4%	72.4%
Savings Interest Paid	10.0%		
Total Financial Cost to the Client (excl. savings)			
Total Interest/Fees Paid	\$53	in 6 Months	
Annualized	\$105	in 1 Year	
Avg net loan balance	\$114		
<i>This is the amount the client has to invest in her business</i>			
Months with Negative Net Balance			
Months:	2		
% of loan term:	33%		



Pricing Analysis Tool - flat, save, fee

Loan Conditions			
Basic Loan Conditions			
Loan Amount	\$500		
Term & Repay Freq.	6	Months	
Pricing			
	Inputs	Incremental Cost	Effective Interest Rate (APR)
Interest Method	Flat		
Annual Interest Rate	36.0%		59.3%
Up-front Fee (%)	3.0%	11.5%	70.8%
Compulsory Savings (%)	20.0%	31.1%	101.9%
Savings Interest Paid	5.0%		
Total Financial Cost to the Client (excl. savings)			
Total Interest/Fees Paid	\$105	in 6 Months	
Annualized	\$210	in 1 Year	
Avg net loan balance	\$176		
<i>This is the amount the client has to invest in her business</i>			
Months with Negative Net Balance			
Months:	2		
% of loan term:	33%		



Additional costs to the client

- » Total cost of the loan includes:
 - Interest payments
 - Fees
 - Funds tied up in compulsory savings
 - Transaction costs
 - Risk of co-signing other clients

Prevarication: What can we conclude?

- » Interest rates are much higher than what most people believe
- » Microfinance has followed in the footsteps of consumer finance, hiding the true cost of our products

Why, given our sincere motivations to assist the poor, did we follow this path? And why haven't we changed this?

Pricing, Prevarication, Profits, and the Poor

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- » **Who will Protect the Poor?** *The need for transparency, ethics, and consumer protection efforts*

What Interest Rate is Appropriate for Microfinance?

- » There is no simple answer
- » Interest rates vary widely in microfinance, due to various factors
- » Figures we will see here are based on MIX data for over 600 MFIs
- » We'll view “real APR” (net of inflation)

Reflect on this:

Why do some networks charge interest rates that are substantially higher – or lower – than other networks?

What factors drive interest rate variations among MFIs?

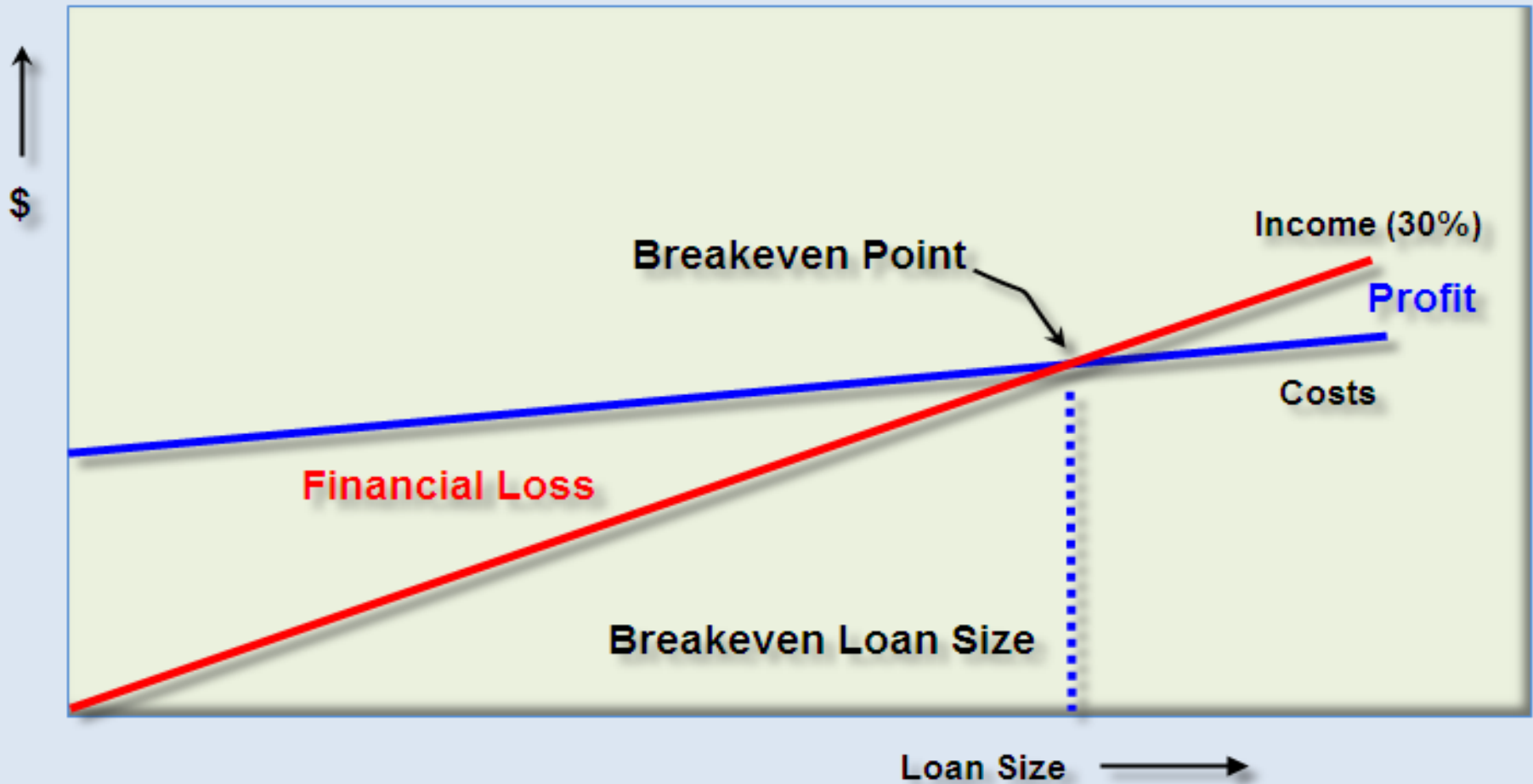
- » Scale of the institution?
- » Organizational structure (NGO, for-profit, cooperative)?
- » More efficient structuring?
- » Subsidies received by the MFI?
- » Profit policies of the MFI?
- » All of these contribute to some degree, but more important is the *size of the loan product*

The realities of income and cost factors

- » “It costs as much to loan \$500 as \$50”
 - Not precisely true, but has a strong element of truth
- » Variable Income
 - APR interest rates are percentages of the loan balance, so income varies with loan size
- » Fixed Costs
 - Operating costs are relatively fixed, so costs don’t reduce much as loan sizes shrink

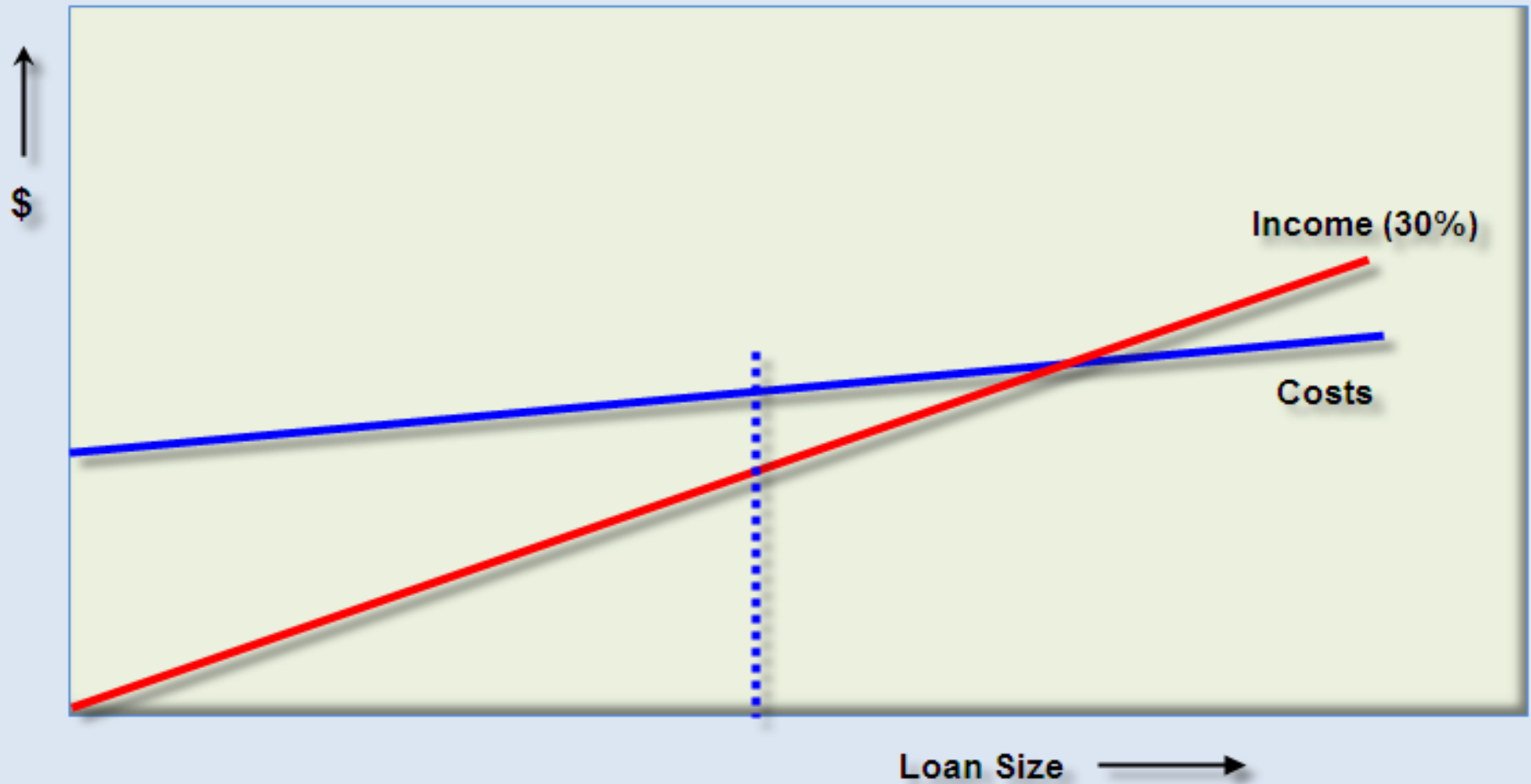


Breakeven Points related to Loan Size and Interest Rate



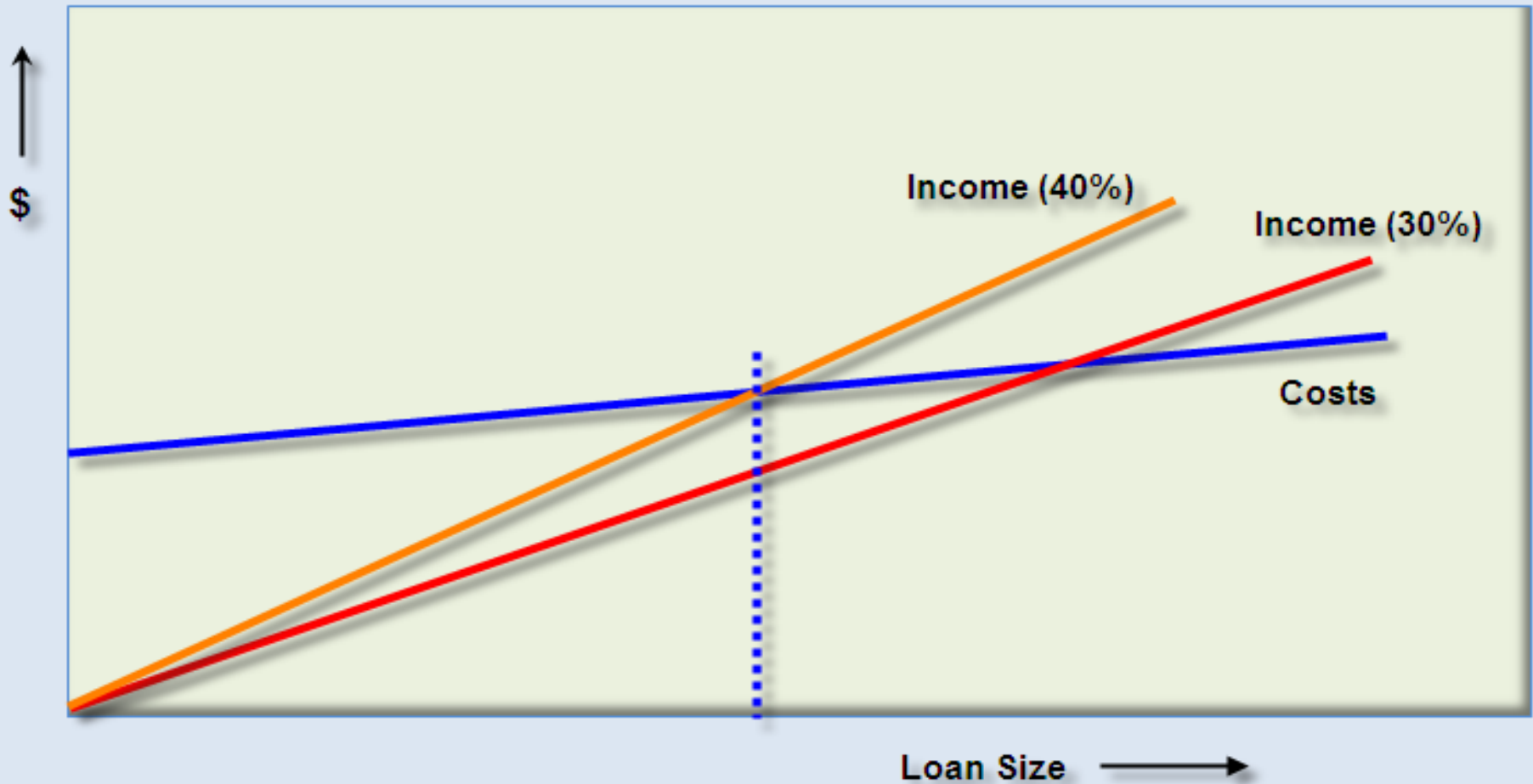


Breakeven Points related to Loan Size and Interest Rate





Breakeven Points related to Loan Size and Interest Rate



Breakeven Cost Analysis Tool

- » Costs of Lending can be broken down into:
 - Financial Costs
 - Loan Loss Provision
 - Operating Costs
- » Income must cover these costs to be sustainable
- » We'll look first at “theory” and then we'll compare with real industry data



Analysis of Cost Structure related to Loan Product Amount and Term

		Data shown on Detailed Graphs										Data included only on Broad Graphs					
	Formula	\$50	\$75	\$100	\$150	\$200	\$300	\$500	\$750	\$1,000	\$1,500	\$2,000	\$3,000	\$5,000	\$7,500	\$10,000	
a	Original Loan Amount																
b	Average Outstanding Balance	a / 2	\$25	\$38	\$50	\$75	\$100	\$150	\$250	\$375	\$500	\$750	\$1,000	\$1,500	\$2,500	\$3,750	\$5,000
c	Loan Term								12	12	12	12					
d	Loans processed/year	12 / c	0.0	0.0	0.0	0.0	0.0	0.0	1.0	1.0	1.0	1.0	0.0	0.0	0.0	0.0	0.0
Loan Write-off																	
e	Annual Loan Write-off %		2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
f	Annual LL Provision	b * e	\$0.5	\$0.8	\$1.0	\$1.5	\$2.0	\$3.0	\$5.0	\$7.5	\$10.0	\$15.0	\$20.0	\$30.0	\$50.0	\$75.0	\$100.0
Financial Cost																	
g	Cost of Funds (%)		10%	10%	10%	10%	10%	10%	10%	10%	10%	8%	8%	8%	8%	8%	8%
h	Annual Financial Cost	b * g	\$3	\$4	\$5	\$8	\$10	\$15	\$25	\$38	\$50	\$75	\$80	\$120	\$200	\$300	\$400
Operating Cost Calculation																	
i	Cost to initiate loan								\$25	\$25	\$30	\$40					
j	Annual initiation costs	d * i	\$0	\$0	\$0	\$0	\$0	\$0	\$25	\$25	\$30	\$40	\$0	\$0	\$0	\$0	\$0
k	Monthly loan monitoring cost								\$5	\$5	\$5	\$7					
l	Annual monitoring cost	k * 12	\$0	\$0	\$0	\$0	\$0	\$0	\$60	\$60	\$60	\$84	\$0	\$0	\$0	\$0	\$0
m	Total Annual Operating Costs	j + l	\$0	\$0	\$0	\$0	\$0	\$0	\$85	\$85	\$90	\$124	\$0	\$0	\$0	\$0	\$0
n	Average Outstanding Balance	b	\$25	\$38	\$50	\$75	\$100	\$150	\$250	\$375	\$500	\$750	\$1,000	\$1,500	\$2,500	\$3,750	\$5,000
o	Annual Operating Cost Ratio	m / b	0%	0%	0%	0%	0%	0%	34%	23%	18%	17%	0%	0%	0%	0%	0%
Cost Structure (%)																	
p	LL Provision	e	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
q	Financial Cost	g	10%	10%	10%	10%	10%	10%	10%	10%	10%	8%	8%	8%	8%	8%	8%
r	Operating Costs	o	0%	0%	0%	0%	0%	0%	34%	23%	18%	17%	0%	0%	0%	0%	0%
s	Total Cost Structure Ratio	e + g + o	12%	12%	12%	12%	12%	12%	46%	35%	30%	29%	10%	10%	10%	10%	10%



Analysis of Cost Structure related to Loan Product Amount and Term

		Data shown on Detailed Graphs										Data included only on Broad Graphs					
	Formula	\$50	\$75	\$100	\$150	\$200	\$300	\$500	\$750	\$1,000	\$1,500	\$2,000	\$3,000	\$5,000	\$7,500	\$10,000	
a	Original Loan Amount																
b	Average Outstanding Balance	a / 2	\$25	\$38	\$50	\$75	\$100	\$150	\$250	\$375	\$500	\$750	\$1,000	\$1,500	\$2,500	\$3,750	\$5,000
c	Loan Term							12	12	12	12						
d	Loans processed/year	12 / c	0.0	0.0	0.0	0.0	0.0	1.0	1.0	1.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Loan Write-off																	
e	Annual Loan Write-off %		2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
f	Annual LL Provision	b * e	\$0.5	\$0.8	\$1.0	\$1.5	\$2.0	\$3.0	\$5.0	\$7.5	\$10.0	\$15.0	\$20.0	\$30.0	\$50.0	\$75.0	\$100.0
Financial Cost																	
g	Cost of Funds (%)		10%	10%	10%	10%	10%	10%	10%	10%	10%	8%	8%	8%	8%	8%	8%
h	Annual Financial Cost	b * g	\$3	\$4	\$5	\$8	\$10	\$15	\$25	\$38	\$50	\$75	\$80	\$120	\$200	\$300	\$400
Operating Cost Calculation																	
i	Cost to initiate loan							\$25	\$25	\$30	\$40						
j	Annual initiation costs	d * i	\$0	\$0	\$0	\$0	\$0	\$25	\$25	\$30	\$40	\$0	\$0	\$0	\$0	\$0	\$0
k	Monthly loan monitoring cost							\$5	\$5	\$5	\$7						
l	Annual monitoring cost	k * 12	\$0	\$0	\$0	\$0	\$0	\$60	\$60	\$60	\$84	\$0	\$0	\$0	\$0	\$0	\$0
m	Total Annual Operating Costs	j + l	\$0	\$0	\$0	\$0	\$0	\$85	\$85	\$90	\$124	\$0	\$0	\$0	\$0	\$0	\$0
n	Average Outstanding Balance	b	\$25	\$38	\$50	\$75	\$100	\$150	\$250	\$375	\$500	\$750	\$1,000	\$1,500	\$2,500	\$3,750	\$5,000
o	Annual Operating Cost Ratio	m / b	0%	0%	0%	0%	0%	0%	34%	23%	18%	17%	0%	0%	0%	0%	0%
Cost Structure (%)																	
p	LL Provision	e	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
q	Financial Cost	g	10%	10%	10%	10%	10%	10%	10%	10%	10%	8%	8%	8%	8%	8%	8%
r	Operating Costs	o	0%	0%	0%	0%	0%	0%	34%	23%	18%	17%	0%	0%	0%	0%	0%
s	Total Cost Structure Ratio	e + g + o	12%	12%	12%	12%	12%	12%	46%	35%	30%	29%	10%	10%	10%	10%	10%



Analysis of Cost Structure related to Loan Product Amount and Term

		Data shown on Detailed Graphs										Data included only on Broad Graphs					
	Formula	\$50	\$75	\$100	\$150	\$200	\$300	\$500	\$750	\$1,000	\$1,500	\$2,000	\$3,000	\$5,000	\$7,500	\$10,000	
a	Original Loan Amount																
b	Average Outstanding Balance	a / 2	\$25	\$38	\$50	\$75	\$100	\$150	\$250	\$375	\$500	\$750	\$1,000	\$1,500	\$2,500	\$3,750	\$5,000
c	Loan Term								12	12	12	12					
d	Loans processed/year	12 / c	0.0	0.0	0.0	0.0	0.0	0.0	1.0	1.0	1.0	1.0	0.0	0.0	0.0	0.0	0.0
Loan Write-off																	
e	Annual Loan Write-off %		2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
f	Annual LL Provision	b * e	\$0.5	\$0.8	\$1.0	\$1.5	\$2.0	\$3.0	\$5.0	\$7.5	\$10.0	\$15.0	\$20.0	\$30.0	\$50.0	\$75.0	\$100.0
Financial Cost																	
g	Cost of Funds (%)		10%	10%	10%	10%	10%	10%	10%	10%	10%	8%	8%	8%	8%	8%	8%
h	Annual Financial Cost	b * g	\$3	\$4	\$5	\$8	\$10	\$15	\$25	\$38	\$50	\$75	\$80	\$120	\$200	\$300	\$400
Operating Cost Calculation																	
i	Cost to initiate loan								\$25	\$25	\$30	\$40					
j	Annual initiation costs	d * i	\$0	\$0	\$0	\$0	\$0	\$0	\$25	\$25	\$30	\$40	\$0	\$0	\$0	\$0	\$0
k	Monthly loan monitoring cost								\$5	\$5	\$5	\$7					
l	Annual monitoring cost	k * 12	\$0	\$0	\$0	\$0	\$0	\$0	\$60	\$60	\$60	\$84	\$0	\$0	\$0	\$0	\$0
m	Total Annual Operating Costs	j + l	\$0	\$0	\$0	\$0	\$0	\$0	\$85	\$85	\$90	\$124	\$0	\$0	\$0	\$0	\$0
n	Average Outstanding Balance	b	\$25	\$38	\$50	\$75	\$100	\$150	\$250	\$375	\$500	\$750	\$1,000	\$1,500	\$2,500	\$3,750	\$5,000
o	Annual Operating Cost Ratio	m / b	0%	0%	0%	0%	0%	0%	34%	23%	18%	17%	0%	0%	0%	0%	0%
Cost Structure (%)																	
p	LL Provision	e	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
q	Financial Cost	g	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	8%	8%	8%	8%	8%
r	Operating Costs	o	0%	0%	0%	0%	0%	0%	34%	23%	18%	17%	0%	0%	0%	0%	0%
s	Total Cost Structure Ratio	e + g + o	12%	12%	12%	12%	12%	12%	46%	35%	30%	29%	10%	10%	10%	10%	10%



Analysis of Cost Structure related to Loan Product Amount and Term

		Data shown on Detailed Graphs										Data included only on Broad Graphs					
	Formula	\$50	\$75	\$100	\$150	\$200	\$300	\$500	\$750	\$1,000	\$1,500	\$2,000	\$3,000	\$5,000	\$7,500	\$10,000	
a	Original Loan Amount																
b	Average Outstanding Balance	a / 2	\$25	\$38	\$50	\$75	\$100	\$150	\$250	\$375	\$500	\$750	\$1,000	\$1,500	\$2,500	\$3,750	\$5,000
c	Loan Term							12	12	12	12						
d	Loans processed/year	12 / c	0.0	0.0	0.0	0.0	0.0	0.0	1.0	1.0	1.0	1.0	0.0	0.0	0.0	0.0	0.0
Loan Write-off																	
e	Annual Loan Write-off %		2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
f	Annual LL Provision	b * e	\$0.5	\$0.8	\$1.0	\$1.5	\$2.0	\$3.0	\$5.0	\$7.5	\$10.0	\$15.0	\$20.0	\$30.0	\$50.0	\$75.0	\$100.0
Financial Cost																	
g	Cost of Funds (%)		10%	10%	10%	10%	10%	10%	10%	10%	10%	8%	8%	8%	8%	8%	8%
h	Annual Financial Cost	b * g	\$3	\$4	\$5	\$8	\$10	\$15	\$25	\$38	\$50	\$75	\$80	\$120	\$200	\$300	\$400
Operating Cost Calculation																	
i	Cost to initiate loan							\$25	\$25	\$30	\$40						
j	Annual initiation costs	d * i	\$0	\$0	\$0	\$0	\$0	\$25	\$25	\$30	\$40	\$0	\$0	\$0	\$0	\$0	\$0
k	Monthly loan monitoring cost							\$5	\$5	\$5	\$7						
l	Annual monitoring cost	k * 12	\$0	\$0	\$0	\$0	\$0	\$60	\$60	\$60	\$84	\$0	\$0	\$0	\$0	\$0	\$0
m	Total Annual Operating Costs	j + l	\$0	\$0	\$0	\$0	\$0	\$85	\$85	\$90	\$124	\$0	\$0	\$0	\$0	\$0	\$0
n	Average Outstanding Balance	b	\$25	\$38	\$50	\$75	\$100	\$150	\$250	\$375	\$500	\$750	\$1,000	\$1,500	\$2,500	\$3,750	\$5,000
o	Annual Operating Cost Ratio	m / b	0%	0%	0%	0%	0%	0%	34%	23%	18%	17%	0%	0%	0%	0%	0%
Cost Structure (%)																	
p	LL Provision	e	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
q	Financial Cost	g	10%	10%	10%	10%	10%	10%	10%	10%	10%	8%	8%	8%	8%	8%	8%
r	Operating Costs	o	0%	0%	0%	0%	0%	0%	34%	23%	18%	17%	0%	0%	0%	0%	0%
s	Total Cost Structure Ratio	e + g + o	12%	12%	12%	12%	12%	12%	46%	35%	30%	29%	10%	10%	10%	10%	10%



Analysis of Cost Structure related to Loan Product Amount and Term

		Data shown on Detailed Graphs										Data included only on Broad Graphs					
	Formula	\$50	\$75	\$100	\$150	\$200	\$300	\$500	\$750	\$1,000	\$1,500	\$2,000	\$3,000	\$5,000	\$7,500	\$10,000	
a	Original Loan Amount																
b	Average Outstanding Balance	a / 2	\$25	\$38	\$50	\$75	\$100	\$150	\$250	\$375	\$500	\$750	\$1,000	\$1,500	\$2,500	\$3,750	\$5,000
c	Loan Term							12	12	12	12						
d	Loans processed/year	12 / c	0.0	0.0	0.0	0.0	0.0	0.0	1.0	1.0	1.0	1.0	0.0	0.0	0.0	0.0	0.0
Loan Write-off																	
e	Annual Loan Write-off %		2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
f	Annual LL Provision	b * e	\$0.5	\$0.8	\$1.0	\$1.5	\$2.0	\$3.0	\$5.0	\$7.5	\$10.0	\$15.0	\$20.0	\$30.0	\$50.0	\$75.0	\$100.0
Financial Cost																	
g	Cost of Funds (%)		10%	10%	10%	10%	10%	10%	10%	10%	10%	8%	8%	8%	8%	8%	8%
h	Annual Financial Cost	b * g	\$3	\$4	\$5	\$8	\$10	\$15	\$25	\$38	\$50	\$75	\$80	\$120	\$200	\$300	\$400
Operating Cost Calculation																	
i	Cost to initiate loan							\$25	\$25	\$30	\$40						
j	Annual initiation costs	d * i	\$0	\$0	\$0	\$0	\$0	\$25	\$25	\$30	\$40	\$0	\$0	\$0	\$0	\$0	\$0
k	Monthly loan monitoring cost							\$5	\$5	\$5	\$7						
l	Annual monitoring cost	k * 12	\$0	\$0	\$0	\$0	\$0	\$60	\$60	\$60	\$84	\$0	\$0	\$0	\$0	\$0	\$0
m	Total Annual Operating Costs	j + l	\$0	\$0	\$0	\$0	\$0	\$85	\$85	\$90	\$124	\$0	\$0	\$0	\$0	\$0	\$0
n	Average Outstanding Balance	b	\$25	\$38	\$50	\$75	\$100	\$150	\$250	\$375	\$500	\$750	\$1,000	\$1,500	\$2,500	\$3,750	\$5,000
o	Annual Operating Cost Ratio	m / b	0%	0%	0%	0%	0%	8%	34%	23%	18%	17%	0%	0%	0%	0%	0%
Cost Structure (%)																	
p	LL Provision	e	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
q	Financial Cost	g	10%	10%	10%	10%	10%	10%	10%	10%	10%	8%	8%	8%	8%	8%	8%
r	Operating Costs	o	0%	0%	0%	0%	0%	0%	34%	23%	18%	17%	0%	0%	0%	0%	0%
s	Total Cost Structure Ratio	e + g + o	12%	12%	12%	12%	12%	12%	46%	35%	30%	29%	10%	10%	10%	10%	10%



Analysis of Cost Structure related to Loan Product Amount and Term

		Data shown on Detailed Graphs										Data included only on Broad Graphs					
	Formula	\$50	\$75	\$100	\$150	\$200	\$300	\$500	\$750	\$1,000	\$1,500	\$2,000	\$3,000	\$5,000	\$7,500	\$10,000	
a	Original Loan Amount																
b	Average Outstanding Balance	a / 2	\$25	\$38	\$50	\$75	\$100	\$150	\$250	\$375	\$500	\$750	\$1,000	\$1,500	\$2,500	\$3,750	\$5,000
c	Loan Term							12	12	12	12						
d	Loans processed/year	12 / c	0.0	0.0	0.0	0.0	0.0	1.0	1.0	1.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Loan Write-off																	
e	Annual Loan Write-off %		2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
f	Annual LL Provision	b * e	\$0.5	\$0.8	\$1.0	\$1.5	\$2.0	\$3.0	\$5.0	\$7.5	\$10.0	\$15.0	\$20.0	\$30.0	\$50.0	\$75.0	\$100.0
Financial Cost																	
g	Cost of Funds (%)		10%	10%	10%	10%	10%	10%	10%	10%	10%	8%	8%	8%	8%	8%	8%
h	Annual Financial Cost	b * g	\$3	\$4	\$5	\$8	\$10	\$15	\$25	\$38	\$50	\$75	\$80	\$120	\$200	\$300	\$400
Operating Cost Calculation																	
i	Cost to initiate loan							\$25	\$25	\$30	\$40						
j	Annual initiation costs	d * i	\$0	\$0	\$0	\$0	\$0	\$25	\$25	\$30	\$40	\$0	\$0	\$0	\$0	\$0	\$0
k	Monthly loan monitoring cost							\$5	\$5	\$5	\$7						
l	Annual monitoring cost	k * 12	\$0	\$0	\$0	\$0	\$0	\$60	\$60	\$60	\$84	\$0	\$0	\$0	\$0	\$0	\$0
m	Total Annual Operating Costs	j + l	\$0	\$0	\$0	\$0	\$0	\$85	\$85	\$90	\$124	\$0	\$0	\$0	\$0	\$0	\$0
n	Average Outstanding Balance	b	\$25	\$38	\$50	\$75	\$100	\$150	\$250	\$375	\$500	\$750	\$1,000	\$1,500	\$2,500	\$3,750	\$5,000
o	Annual Operating Cost Ratio	m / b	0%	0%	0%	0%	0%	0%	34%	23%	18%	17%	0%	0%	0%	0%	0%
Cost Structure (%)																	
p	LL Provision	e	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
q	Financial Cost	g	10%	10%	10%	10%	10%	10%	10%	10%	10%	8%	8%	8%	8%	8%	8%
r	Operating Costs	o	0%	0%	0%	0%	0%	0%	34%	23%	18%	17%	0%	0%	0%	0%	0%
s	Total Cost Structure Ratio	e + g + o	12%	12%	12%	12%	12%	12%	46%	35%	30%	29%	10%	10%	10%	10%	10%



Analysis of Cost Structure related to Loan Product Amount and Term

		Data shown on Detailed Graphs										Data included only on Broad Graphs					
	Formula	\$50	\$75	\$100	\$150	\$200	\$300	\$500	\$750	\$1,000	\$1,500	\$2,000	\$3,000	\$5,000	\$7,500	\$10,000	
a	Original Loan Amount																
b	Average Outstanding Balance	a / 2	\$25	\$38	\$50	\$75	\$100	\$150	\$250	\$375	\$500	\$750	\$1,000	\$1,500	\$2,500	\$3,750	\$5,000
c	Loan Term								12	12	12	12	12	12	12	18	24
d	Loans processed/year	12 / c	0.0	0.0	0.0	0.0	0.0	0.0	1.0	1.0	1.0	1.0	1.0	1.0	0.7	0.5	
Loan Write-off																	
e	Annual Loan Write-off %		2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
f	Annual LL Provision	b * e	\$0.5	\$0.8	\$1.0	\$1.5	\$2.0	\$3.0	\$5.0	\$7.5	\$10.0	\$15.0	\$20.0	\$30.0	\$50.0	\$75.0	\$100.0
Financial Cost																	
g	Cost of Funds (%)		10%	10%	10%	10%	10%	10%	10%	10%	10%	8%	8%	8%	8%	8%	
h	Annual Financial Cost	b * g	\$3	\$4	\$5	\$8	\$10	\$15	\$25	\$38	\$50	\$75	\$80	\$120	\$200	\$300	\$400
Operating Cost Calculation																	
i	Cost to initiate loan								\$25	\$25	\$30	\$40	\$50	\$75	\$100	\$150	\$200
j	Annual initiation costs	d * i	\$0	\$0	\$0	\$0	\$0	\$0	\$25	\$25	\$30	\$40	\$50	\$75	\$100	\$100	\$100
k	Monthly loan monitoring cost								\$5	\$5	\$5	\$7	\$8	\$8	\$10	\$13	\$16
l	Annual monitoring cost	k * 12	\$0	\$0	\$0	\$0	\$0	\$0	\$60	\$60	\$60	\$84	\$96	\$96	\$120	\$150	\$188
m	Total Annual Operating Costs	j + l	\$0	\$0	\$0	\$0	\$0	\$0	\$85	\$85	\$90	\$124	\$146	\$171	\$220	\$250	\$288
n	Average Outstanding Balance	b	\$25	\$38	\$50	\$75	\$100	\$150	\$250	\$375	\$500	\$750	\$1,000	\$1,500	\$2,500	\$3,750	\$5,000
o	Annual Operating Cost Ratio	m / b	0%	0%	0%	0%	0%	0%	34%	23%	18%	17%	15%	11%	9%	7%	6%
Cost Structure (%)																	
p	LL Provision	e	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
q	Financial Cost	g	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	8%	8%	8%	8%	8%
r	Operating Costs	o	0%	0%	0%	0%	0%	0%	34%	23%	18%	17%	15%	11%	9%	7%	6%
s	Total Cost Structure Ratio	e + g + o	12%	12%	12%	12%	12%	12%	46%	35%	30%	29%	25%	21%	19%	17%	16%



Analysis of Cost Structure related to Loan Product Amount and Term

		Data shown on Detailed Graphs										Data included only on Broad Graphs					
	Formula	\$50	\$75	\$100	\$150	\$200	\$300	\$500	\$750	\$1,000	\$1,500	\$2,000	\$3,000	\$5,000	\$7,500	\$10,000	
a	Original Loan Amount																
b	Average Outstanding Balance	a / 2	\$25	\$38	\$50	\$75	\$100	\$150	\$250	\$375	\$500	\$750	\$1,000	\$1,500	\$2,500	\$3,750	\$5,000
c	Loan Term								12	12	12	12	12	12	12	18	24
d	Loans processed/year	12 / c	0.0	0.0	0.0	0.0	0.0	0.0	1.0	1.0	1.0	1.0	1.0	1.0	0.7	0.5	
Loan Write-off																	
e	Annual Loan Write-off %		2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
f	Annual LL Provision	b * e	\$0.5	\$0.8	\$1.0	\$1.5	\$2.0	\$3.0	\$5.0	\$7.5	\$10.0	\$15.0	\$20.0	\$30.0	\$50.0	\$75.0	\$100.0
Financial Cost																	
g	Cost of Funds (%)		10%	10%	10%	10%	10%	10%	10%	10%	10%	8%	8%	8%	8%	8%	
h	Annual Financial Cost	b * g	\$3	\$4	\$5	\$8	\$10	\$15	\$25	\$38	\$50	\$75	\$80	\$120	\$200	\$300	\$400
Operating Cost Calculation																	
i	Cost to initiate loan								\$25	\$25	\$30	\$40	\$50	\$75	\$100	\$150	\$200
j	Annual initiation costs	d * i	\$0	\$0	\$0	\$0	\$0	\$0	\$25	\$25	\$30	\$40	\$50	\$75	\$100	\$100	\$100
k	Monthly loan monitoring cost								\$5	\$5	\$5	\$7	\$8	\$8	\$10	\$13	\$16
l	Annual monitoring cost	k * 12	\$0	\$0	\$0	\$0	\$0	\$0	\$60	\$60	\$60	\$84	\$96	\$96	\$120	\$150	\$188
m	Total Annual Operating Costs	j + l	\$0	\$0	\$0	\$0	\$0	\$0	\$85	\$85	\$90	\$124	\$146	\$171	\$220	\$250	\$288
n	Average Outstanding Balance	b	\$25	\$38	\$50	\$75	\$100	\$150	\$250	\$375	\$500	\$750	\$1,000	\$1,500	\$2,500	\$3,750	\$5,000
o	Annual Operating Cost Ratio	m / b	0%	0%	0%	0%	0%	0%	34%	23%	18%	17%	15%	11%	9%	7%	6%
Cost Structure (%)																	
p	LL Provision	e	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
q	Financial Cost	g	10%	10%	10%	10%	10%	10%	10%	10%	10%	8%	8%	8%	8%	8%	8%
r	Operating Costs	o	0%	0%	0%	0%	0%	0%	34%	23%	18%	17%	15%	11%	9%	7%	6%
s	Total Cost Structure Ratio	e + g + o	12%	12%	12%	12%	12%	12%	46%	35%	30%	29%	25%	21%	19%	17%	16%



Analysis of Cost Structure related to Loan Product Amount and Term

		Data shown on Detailed Graphs										Data included only on Broad Graphs					
	Formula	\$50	\$75	\$100	\$150	\$200	\$300	\$500	\$750	\$1,000	\$1,500	\$2,000	\$3,000	\$5,000	\$7,500	\$10,000	
a	Original Loan Amount																
b	Average Outstanding Balance	a / 2	\$25	\$38	\$50	\$75	\$100	\$150	\$250	\$375	\$500	\$750	\$1,000	\$1,500	\$2,500	\$3,750	\$5,000
c	Loan Term								12	12	12	12	12	12	12	18	24
d	Loans processed/year	12 / c	0.0	0.0	0.0	0.0	0.0	0.0	1.0	1.0	1.0	1.0	1.0	1.0	0.7	0.5	
Loan Write-off																	
e	Annual Loan Write-off %		2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
f	Annual LL Provision	b * e	\$0.5	\$0.8	\$1.0	\$1.5	\$2.0	\$3.0	\$5.0	\$7.5	\$10.0	\$15.0	\$20.0	\$30.0	\$50.0	\$75.0	\$100.0
Financial Cost																	
g	Cost of Funds (%)		10%	10%	10%	10%	10%	10%	10%	10%	10%	8%	8%	8%	8%	8%	
h	Annual Financial Cost	b * g	\$3	\$4	\$5	\$8	\$10	\$15	\$25	\$38	\$50	\$75	\$80	\$120	\$200	\$300	\$400
Operating Cost Calculation																	
i	Cost to initiate loan								\$25	\$25	\$30	\$40	\$50	\$75	\$100	\$150	\$200
j	Annual initiation costs	d * i	\$0	\$0	\$0	\$0	\$0	\$0	\$25	\$25	\$30	\$40	\$50	\$75	\$100	\$100	\$100
k	Monthly loan monitoring cost								\$5	\$5	\$5	\$7	\$8	\$8	\$10	\$13	\$16
l	Annual monitoring cost	k * 12	\$0	\$0	\$0	\$0	\$0	\$0	\$60	\$60	\$60	\$84	\$96	\$96	\$120	\$150	\$188
m	Total Annual Operating Costs	j + l	\$0	\$0	\$0	\$0	\$0	\$0	\$85	\$85	\$90	\$124	\$146	\$171	\$220	\$250	\$288
n	Average Outstanding Balance	b	\$25	\$38	\$50	\$75	\$100	\$150	\$250	\$375	\$500	\$750	\$1,000	\$1,500	\$2,500	\$3,750	\$5,000
o	Annual Operating Cost Ratio	m / b	0%	0%	0%	0%	0%	0%	34%	23%	18%	17%	15%	11%	9%	7%	6%
Cost Structure (%)																	
p	LL Provision	e	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
q	Financial Cost	g	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	8%	8%	8%	8%	8%
r	Operating Costs	o	0%	0%	0%	0%	0%	0%	34%	23%	18%	17%	15%	11%	9%	7%	6%
s	Total Cost Structure Ratio	e + g + o	12%	12%	12%	12%	12%	12%	46%	35%	30%	29%	25%	21%	19%	17%	16%



Analysis of Cost Structure related to Loan Product Amount and Term

		Data shown on Detailed Graphs										Data included only on Broad Graphs					
		\$50	\$75	\$100	\$150	\$200	\$300	\$500	\$750	\$1,000	\$1,500	\$2,000	\$3,000	\$5,000	\$7,500	\$10,000	
a	Original Loan Amount	Formula															
b	Average Outstanding Balance	a / 2	\$25	\$38	\$50	\$75	\$100	\$150	\$250	\$375	\$500	\$750	\$1,000	\$1,500	\$2,500	\$3,750	\$5,000
c	Loan Term		4	4	4	6	6	6	12	12	12	12	12	12	12	18	24
d	Loans processed/year	12 / c	3.0	3.0	3.0	2.0	2.0	2.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	0.7	0.5
Loan Write-off																	
e	Annual Loan Write-off %		2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
f	Annual LL Provision	b * e	\$0.5	\$0.8	\$1.0	\$1.5	\$2.0	\$3.0	\$5.0	\$7.5	\$10.0	\$15.0	\$20.0	\$30.0	\$50.0	\$75.0	\$100.0
Financial Cost																	
g	Cost of Funds (%)		10%	10%	10%	10%	10%	10%	10%	10%	10%	8%	8%	8%	8%	8%	8%
h	Annual Financial Cost	b * g	\$3	\$4	\$5	\$8	\$10	\$15	\$25	\$38	\$50	\$75	\$80	\$120	\$200	\$300	\$400
Operating Cost Calculation																	
i	Cost to initiate loan		\$5	\$7	\$10	\$15	\$15	\$20	\$25	\$25	\$30	\$40	\$50	\$75	\$100	\$150	\$200
j	Annual initiation costs	d * i	\$15	\$21	\$30	\$30	\$30	\$40	\$25	\$25	\$30	\$40	\$50	\$75	\$100	\$100	\$100
k	Monthly loan monitoring cost		\$2	\$2	\$2	\$2	\$3	\$3	\$5	\$5	\$5	\$7	\$8	\$8	\$10	\$13	\$16
l	Annual monitoring cost	k * 12	\$24	\$24	\$24	\$24	\$36	\$36	\$60	\$60	\$60	\$84	\$96	\$96	\$120	\$150	\$188
m	Total Annual Operating Costs	j + l	\$39	\$45	\$54	\$54	\$66	\$76	\$85	\$85	\$90	\$124	\$146	\$171	\$220	\$250	\$288
n	Average Outstanding Balance	b	\$25	\$38	\$50	\$75	\$100	\$150	\$250	\$375	\$500	\$750	\$1,000	\$1,500	\$2,500	\$3,750	\$5,000
o	Annual Operating Cost Ratio	m / b	156%	120%	108%	72%	66%	51%	34%	23%	18%	17%	15%	11%	9%	7%	6%
Cost Structure (%)																	
p	LL Provision	e	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
q	Financial Cost	g	10%	10%	10%	10%	10%	10%	10%	10%	10%	8%	8%	8%	8%	8%	8%
r	Operating Costs	o	156%	120%	108%	72%	66%	51%	34%	23%	18%	17%	15%	11%	9%	7%	6%
s	Total Cost Structure Ratio	e + g + o	168%	132%	120%	84%	78%	63%	46%	35%	30%	29%	25%	21%	19%	17%	16%



Analysis of Cost Structure related to Loan Product Amount and Term

		Data shown on Detailed Graphs										Data included only on Broad Graphs					
	Formula	\$50	\$75	\$100	\$150	\$200	\$300	\$500	\$750	\$1,000	\$1,500	\$2,000	\$3,000	\$5,000	\$7,500	\$10,000	
a	Original Loan Amount																
b	Average Outstanding Balance	a / 2	\$25	\$38	\$50	\$75	\$100	\$150	\$250	\$375	\$500	\$750	\$1,000	\$1,500	\$2,500	\$3,750	\$5,000
c	Loan Term		4	4	4	6	6	6	12	12	12	12	12	12	12	18	24
d	Loans processed/year	12 / c	3.0	3.0	3.0	2.0	2.0	2.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	0.7	0.5
Loan Write-off																	
e	Annual Loan Write-off %		2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
f	Annual LL Provision	b * e	\$0.5	\$0.8	\$1.0	\$1.5	\$2.0	\$3.0	\$5.0	\$7.5	\$10.0	\$15.0	\$20.0	\$30.0	\$50.0	\$75.0	\$100.0
Financial Cost																	
g	Cost of Funds (%)		10%	10%	10%	10%	10%	10%	10%	10%	10%	8%	8%	8%	8%	8%	8%
h	Annual Financial Cost	b * g	\$3	\$4	\$5	\$8	\$10	\$15	\$25	\$38	\$50	\$75	\$80	\$120	\$200	\$300	\$400
Operating Cost Calculation																	
i	Cost to initiate loan		\$5	\$7	\$10	\$15	\$15	\$20	\$25	\$25	\$30	\$40	\$50	\$75	\$100	\$150	\$200
j	Annual initiation costs	d * i	\$15	\$21	\$30	\$30	\$30	\$40	\$25	\$25	\$30	\$40	\$50	\$75	\$100	\$100	\$100
k	Monthly loan monitoring cost		\$2	\$2	\$2	\$2	\$3	\$3	\$5	\$5	\$5	\$7	\$8	\$8	\$10	\$13	\$16
l	Annual monitoring cost	k * 12	\$24	\$24	\$24	\$24	\$36	\$36	\$60	\$60	\$60	\$84	\$96	\$96	\$120	\$150	\$188
m	Total Annual Operating Costs	j + l	\$39	\$45	\$54	\$54	\$66	\$76	\$85	\$85	\$90	\$124	\$146	\$171	\$220	\$250	\$288
n	Average Outstanding Balance	b	\$25	\$38	\$50	\$75	\$100	\$150	\$250	\$375	\$500	\$750	\$1,000	\$1,500	\$2,500	\$3,750	\$5,000
o	Annual Operating Cost Ratio	m / b	156%	120%	108%	72%	66%	51%	34%	23%	18%	17%	15%	11%	9%	7%	6%
Cost Structure (%)																	
p	LL Provision	e	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
q	Financial Cost	g	10%	10%	10%	10%	10%	10%	10%	10%	10%	8%	8%	8%	8%	8%	8%
r	Operating Costs	o	156%	120%	108%	72%	66%	51%	34%	23%	18%	17%	15%	11%	9%	7%	6%
s	Total Cost Structure Ratio	e + g + o	168%	132%	120%	84%	78%	63%	46%	35%	30%	29%	25%	21%	19%	17%	16%



Analysis of Cost Structure related to Loan Product Amount and Term

		Data shown on Detailed Graphs										Data included only on Broad Graphs					
	Formula	\$50	\$75	\$100	\$150	\$200	\$300	\$500	\$750	\$1,000	\$1,500	\$2,000	\$3,000	\$5,000	\$7,500	\$10,000	
a	Original Loan Amount																
b	Average Outstanding Balance	a / 2	\$25	\$38	\$50	\$75	\$100	\$150	\$250	\$375	\$500	\$750	\$1,000	\$1,500	\$2,500	\$3,750	\$5,000
c	Loan Term		4	4	4	6	6	6	12	12	12	12	12	12	12	18	24
d	Loans processed/year	12 / c	3.0	3.0	3.0	2.0	2.0	2.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	0.7	0.5
Loan Write-off																	
e	Annual Loan Write-off %		2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
f	Annual LL Provision	b * e	\$0.5	\$0.8	\$1.0	\$1.5	\$2.0	\$3.0	\$5.0	\$7.5	\$10.0	\$15.0	\$20.0	\$30.0	\$50.0	\$75.0	\$100.0
Financial Cost																	
g	Cost of Funds (%)		10%	10%	10%	10%	10%	10%	10%	10%	10%	8%	8%	8%	8%	8%	
h	Annual Financial Cost	b * g	\$3	\$4	\$5	\$8	\$10	\$15	\$25	\$38	\$50	\$75	\$80	\$120	\$200	\$300	\$400
Operating Cost Calculation																	
i	Cost to initiate loan		\$5	\$7	\$10	\$15	\$15	\$20	\$25	\$25	\$30	\$40	\$50	\$75	\$100	\$150	\$200
j	Annual initiation costs	d * i	\$15	\$21	\$30	\$30	\$40	\$25	\$25	\$30	\$40	\$50	\$75	\$100	\$100	\$100	
k	Monthly loan monitoring cost		\$2	\$2	\$2	\$2	\$3	\$3	\$5	\$5	\$5	\$7	\$8	\$8	\$10	\$13	\$16
l	Annual monitoring cost	k * 12	\$24	\$24	\$24	\$24	\$36	\$36	\$60	\$60	\$60	\$84	\$96	\$96	\$120	\$150	\$188
m	Total Annual Operating Costs	j + l	\$39	\$45	\$54	\$54	\$66	\$76	\$85	\$85	\$90	\$124	\$146	\$171	\$220	\$250	\$288
n	Average Outstanding Balance	b	\$25	\$38	\$50	\$75	\$100	\$150	\$250	\$375	\$500	\$750	\$1,000	\$1,500	\$2,500	\$3,750	\$5,000
o	Annual Operating Cost Ratio	m / b	156%	120%	108%	72%	66%	51%	34%	23%	18%	17%	15%	11%	9%	7%	6%
Cost Structure (%)																	
p	LL Provision	e	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
q	Financial Cost	g	10%	10%	10%	10%	10%	10%	10%	10%	10%	8%	8%	8%	8%	8%	
r	Operating Costs	o	156%	120%	108%	72%	66%	51%	34%	23%	18%	17%	15%	11%	9%	7%	6%
s	Total Cost Structure Ratio	e + g + o	168%	132%	120%	84%	78%	63%	46%	35%	30%	29%	25%	21%	19%	17%	16%



Analysis of Cost Structure related to Loan Product Amount and Term

		Data shown on Detailed Graphs										Data included only on Broad Graphs					
		\$50	\$75	\$100	\$150	\$200	\$300	\$500	\$750	\$1,000	\$1,500	\$2,000	\$3,000	\$5,000	\$7,500	\$10,000	
a	Original Loan Amount	Formula															
b	Average Outstanding Balance	a / 2	\$25	\$38	\$50	\$75	\$100	\$150	\$250	\$375	\$500	\$750	\$1,000	\$1,500	\$2,500	\$3,750	\$5,000
c	Loan Term		4	4	4	6	6	6	12	12	12	12	12	12	12	18	24
d	Loans processed/year	12 / c	3.0	3.0	3.0	2.0	2.0	2.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	0.7	0.5
Loan Write-off																	
e	Annual Loan Write-off %		2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
f	Annual LL Provision	b * e	\$0.5	\$0.8	\$1.0	\$1.5	\$2.0	\$3.0	\$5.0	\$7.5	\$10.0	\$15.0	\$20.0	\$30.0	\$50.0	\$75.0	\$100.0
Financial Cost																	
g	Cost of Funds (%)		10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	8%	8%	8%	8%	8%
h	Annual Financial Cost	b * g	\$3	\$4	\$5	\$8	\$10	\$15	\$25	\$38	\$50	\$75	\$80	\$120	\$200	\$300	\$400
Operating Cost Calculation																	
i	Cost to initiate loan		\$5	\$7	\$10	\$15	\$15	\$20	\$25	\$25	\$30	\$40	\$50	\$75	\$100	\$150	\$200
j	Annual initiation costs	d * i	\$15	\$21	\$30	\$30	\$30	\$40	\$25	\$25	\$30	\$40	\$50	\$75	\$100	\$100	\$100
k	Monthly loan monitoring cost		\$2	\$2	\$2	\$2	\$3	\$3	\$5	\$5	\$5	\$7	\$8	\$8	\$10	\$13	\$16
l	Annual monitoring cost	k * 12	\$24	\$24	\$24	\$24	\$36	\$36	\$60	\$60	\$60	\$84	\$96	\$96	\$120	\$150	\$188
m	Total Annual Operating Costs	j + l	\$39	\$45	\$54	\$54	\$66	\$76	\$85	\$85	\$90	\$124	\$146	\$171	\$220	\$250	\$288
n	Average Outstanding Balance	b	\$25	\$38	\$50	\$75	\$100	\$150	\$250	\$375	\$500	\$750	\$1,000	\$1,500	\$2,500	\$3,750	\$5,000
o	Annual Operating Cost Ratio	m / b	156%	120%	108%	72%	66%	51%	34%	23%	18%	17%	15%	11%	9%	7%	6%
Cost Structure (%)																	
p	LL Provision	e	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
q	Financial Cost	g	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	8%	8%	8%	8%	8%
r	Operating Costs	o	156%	120%	108%	72%	66%	51%	34%	23%	18%	17%	15%	11%	9%	7%	6%
s	Total Cost Structure Ratio	e + g + o	168%	132%	120%	84%	78%	63%	46%	35%	30%	29%	25%	21%	19%	17%	16%

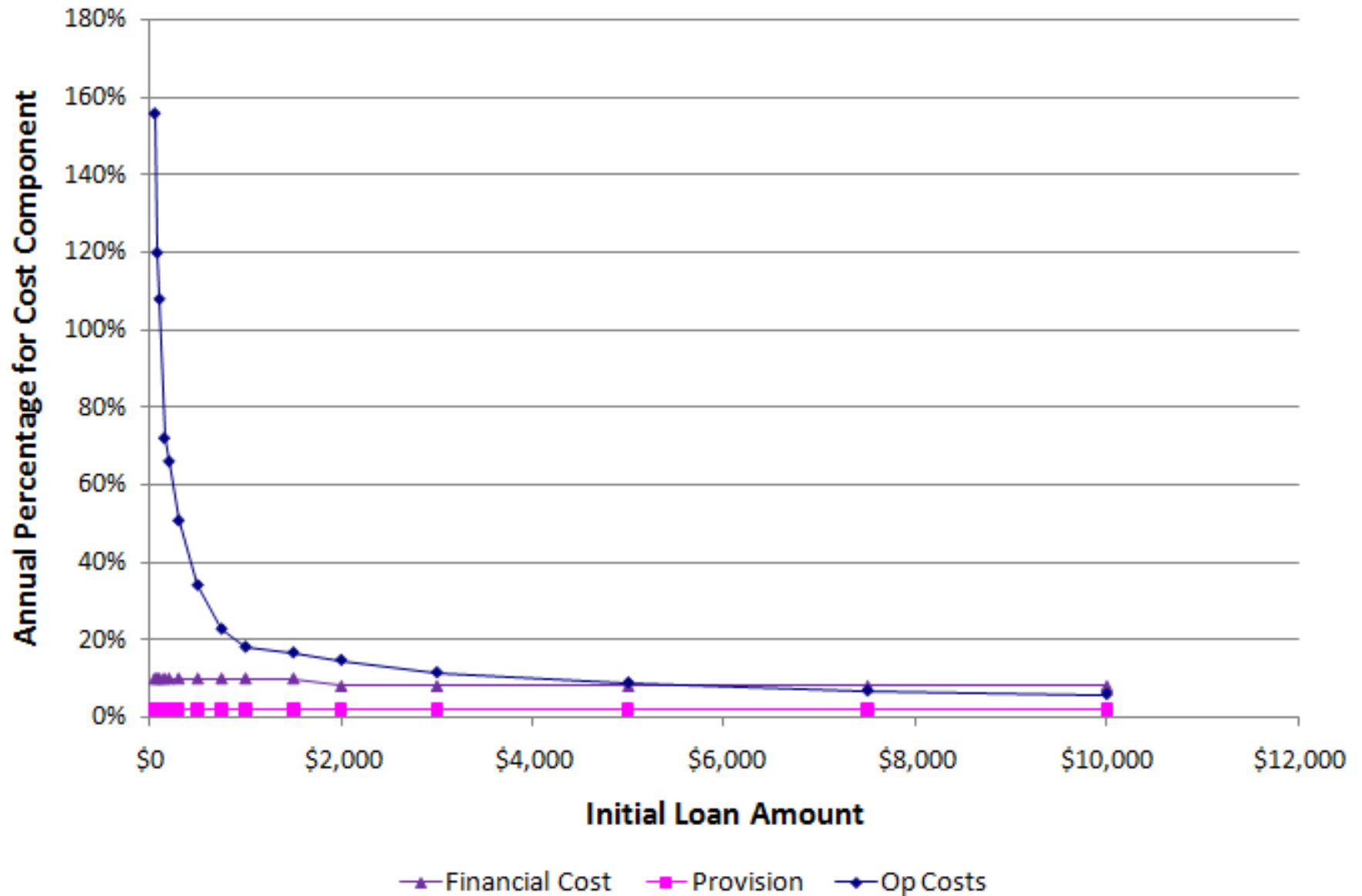


Analysis of Cost Structure related to Loan Product Amount and Term

		Data shown on Detailed Graphs										Data included only on Broad Graphs					
	Formula	\$50	\$75	\$100	\$150	\$200	\$300	\$500	\$750	\$1,000	\$1,500	\$2,000	\$3,000	\$5,000	\$7,500	\$10,000	
a	Original Loan Amount																
b	Average Outstanding Balance	a / 2	\$25	\$38	\$50	\$75	\$100	\$150	\$250	\$375	\$500	\$750	\$1,000	\$1,500	\$2,500	\$3,750	\$5,000
c	Loan Term		4	4	4	6	6	6	12	12	12	12	12	12	12	18	24
d	Loans processed/year	12 / c	3.0	3.0	3.0	2.0	2.0	2.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	0.7	0.5
Loan Write-off																	
e	Annual Loan Write-off %		2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
f	Annual LL Provision	b * e	\$0.5	\$0.8	\$1.0	\$1.5	\$2.0	\$3.0	\$5.0	\$7.5	\$10.0	\$15.0	\$20.0	\$30.0	\$50.0	\$75.0	\$100.0
Financial Cost																	
g	Cost of Funds (%)		10%	10%	10%	10%	10%	10%	10%	10%	10%	8%	8%	8%	8%	8%	8%
h	Annual Financial Cost	b * g	\$3	\$4	\$5	\$8	\$10	\$15	\$25	\$38	\$50	\$75	\$80	\$120	\$200	\$300	\$400
Operating Cost Calculation																	
i	Cost to initiate loan		\$5	\$7	\$10	\$15	\$15	\$20	\$25	\$25	\$30	\$40	\$50	\$75	\$100	\$150	\$200
j	Annual initiation costs	d * i	\$15	\$21	\$30	\$30	\$30	\$40	\$25	\$25	\$30	\$40	\$50	\$75	\$100	\$100	\$100
k	Monthly loan monitoring cost		\$2	\$2	\$2	\$2	\$3	\$3	\$5	\$5	\$5	\$7	\$8	\$8	\$10	\$13	\$16
l	Annual monitoring cost	k * 12	\$24	\$24	\$24	\$24	\$36	\$36	\$60	\$60	\$60	\$84	\$96	\$96	\$120	\$150	\$188
m	Total Annual Operating Costs	j + l	\$39	\$45	\$54	\$54	\$66	\$76	\$85	\$85	\$90	\$124	\$146	\$171	\$220	\$250	\$288
n	Average Outstanding Balance	b	\$25	\$38	\$50	\$75	\$100	\$150	\$250	\$375	\$500	\$750	\$1,000	\$1,500	\$2,500	\$3,750	\$5,000
o	Annual Operating Cost Ratio	m / b	156%	120%	108%	72%	66%	51%	34%	23%	18%	17%	15%	11%	9%	7%	6%
Cost Structure (%)																	
p	LL Provision	e	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
q	Financial Cost	g	10%	10%	10%	10%	10%	10%	10%	10%	10%	8%	8%	8%	8%	8%	8%
r	Operating Costs	o	156%	120%	108%	72%	66%	51%	34%	23%	18%	17%	15%	11%	9%	7%	6%
s	Total Cost Structure Ratio	e + g + o	168%	132%	120%	84%	78%	63%	46%	35%	30%	29%	25%	21%	19%	17%	16%

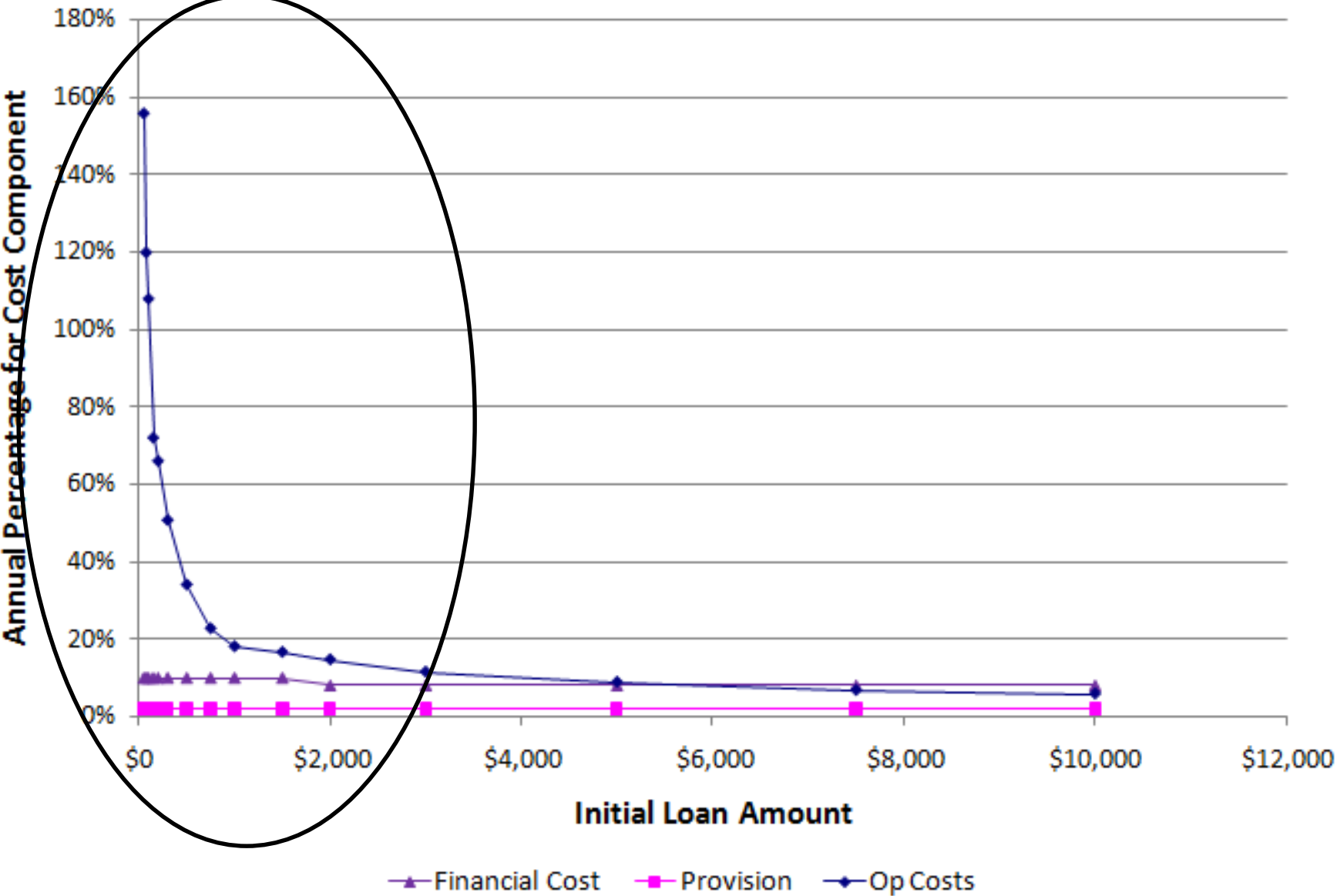
Cost Structure Relative to Initial Loan Amount

(Broad range)



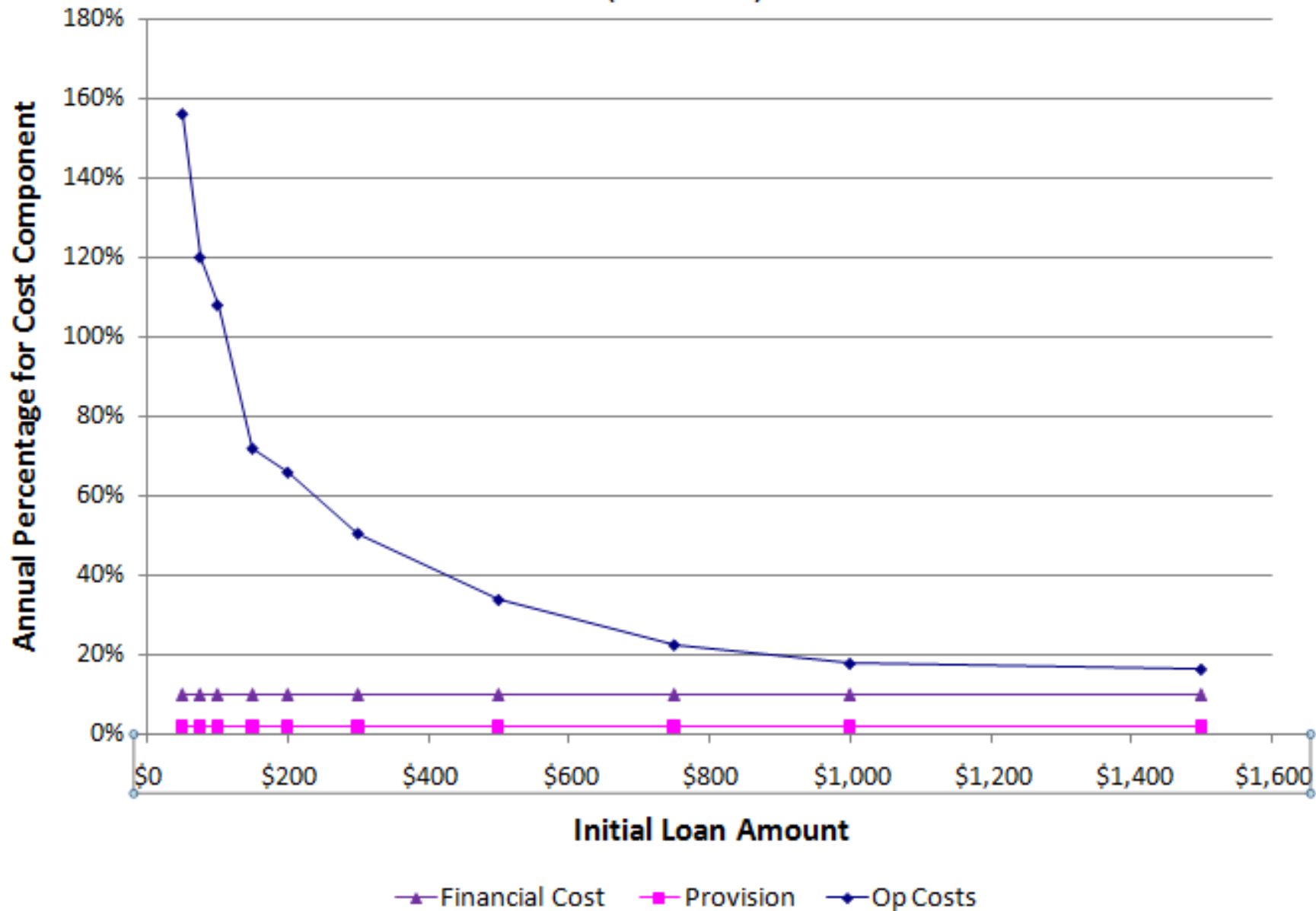
Cost Structure Relative to Initial Loan Amount

(Broad range)



Cost Structure Relative to Initial Loan Amount

(smaller loans)



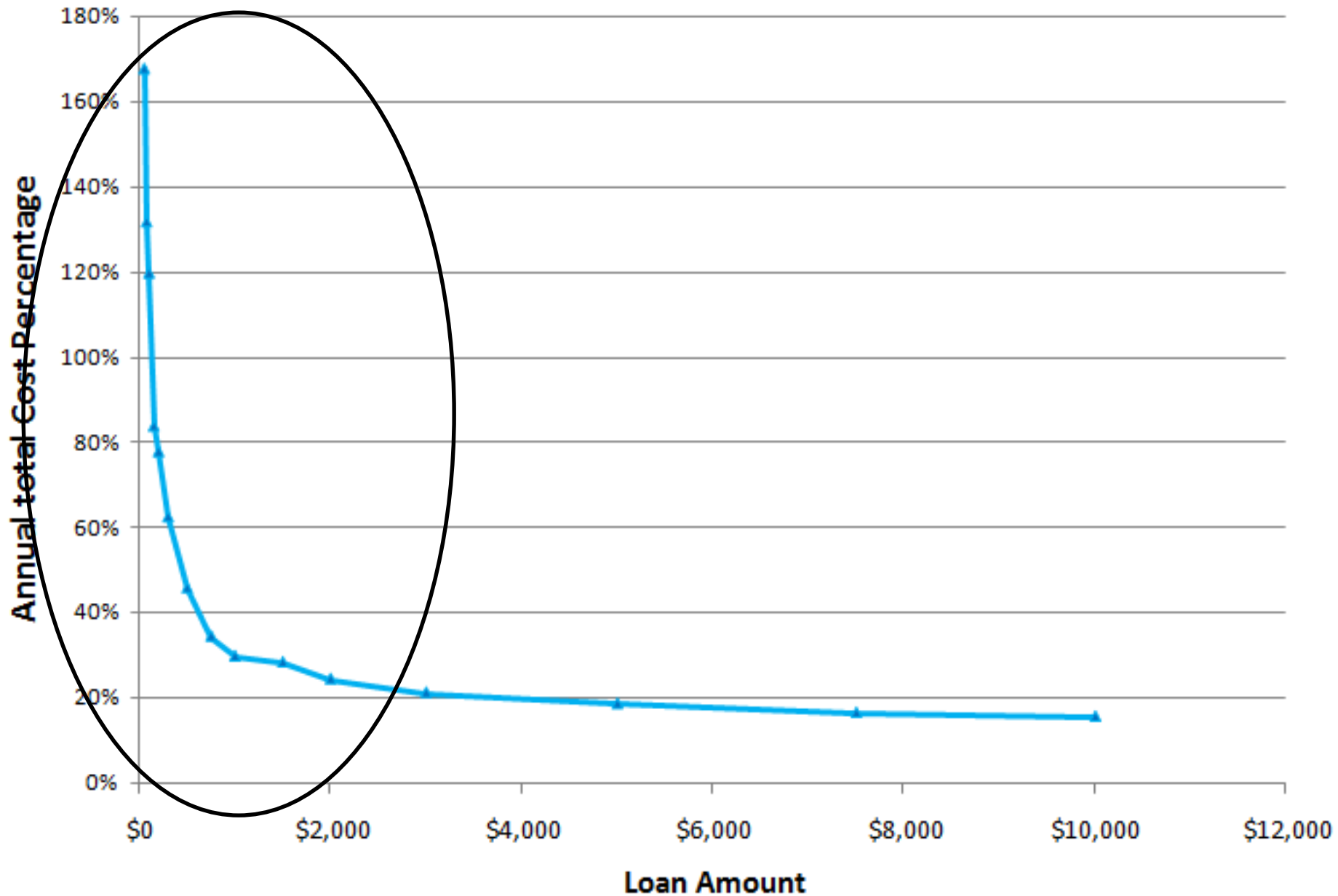
Cost Structure by Loan Amount

(Broad range)



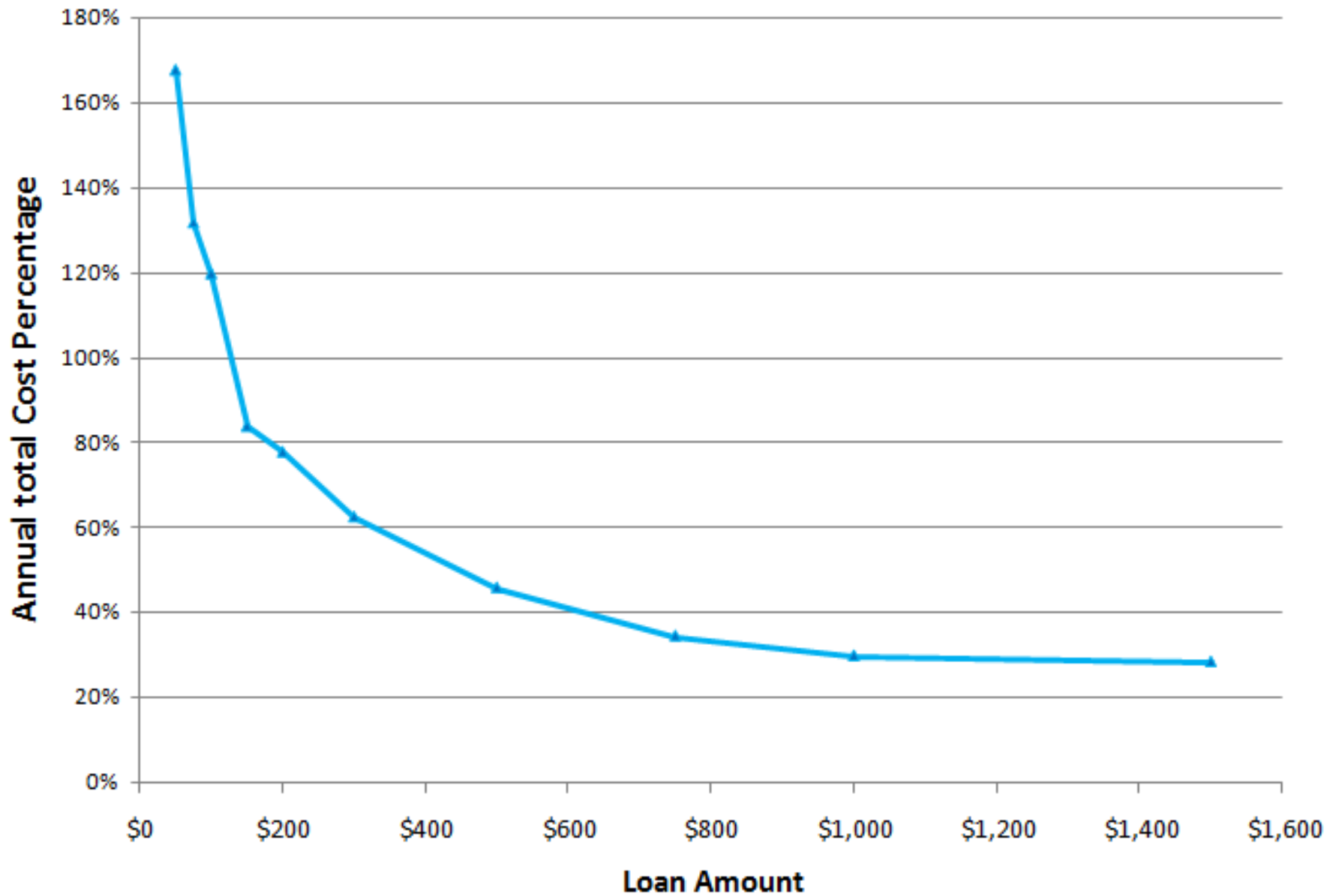
Cost Structure by Loan Amount

(Broad range)



Cost Structure by Loan Amount

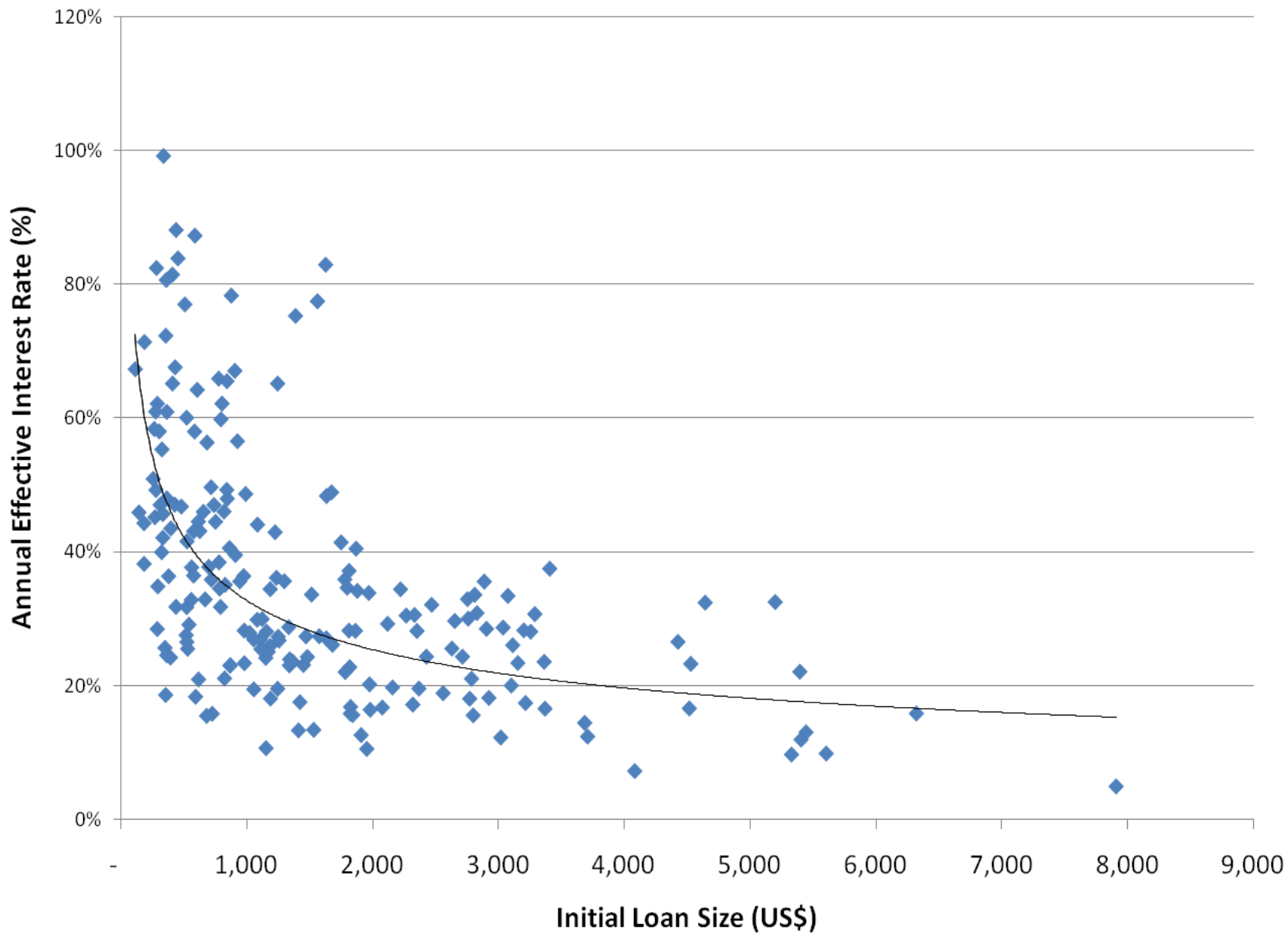
(Smaller Loans)



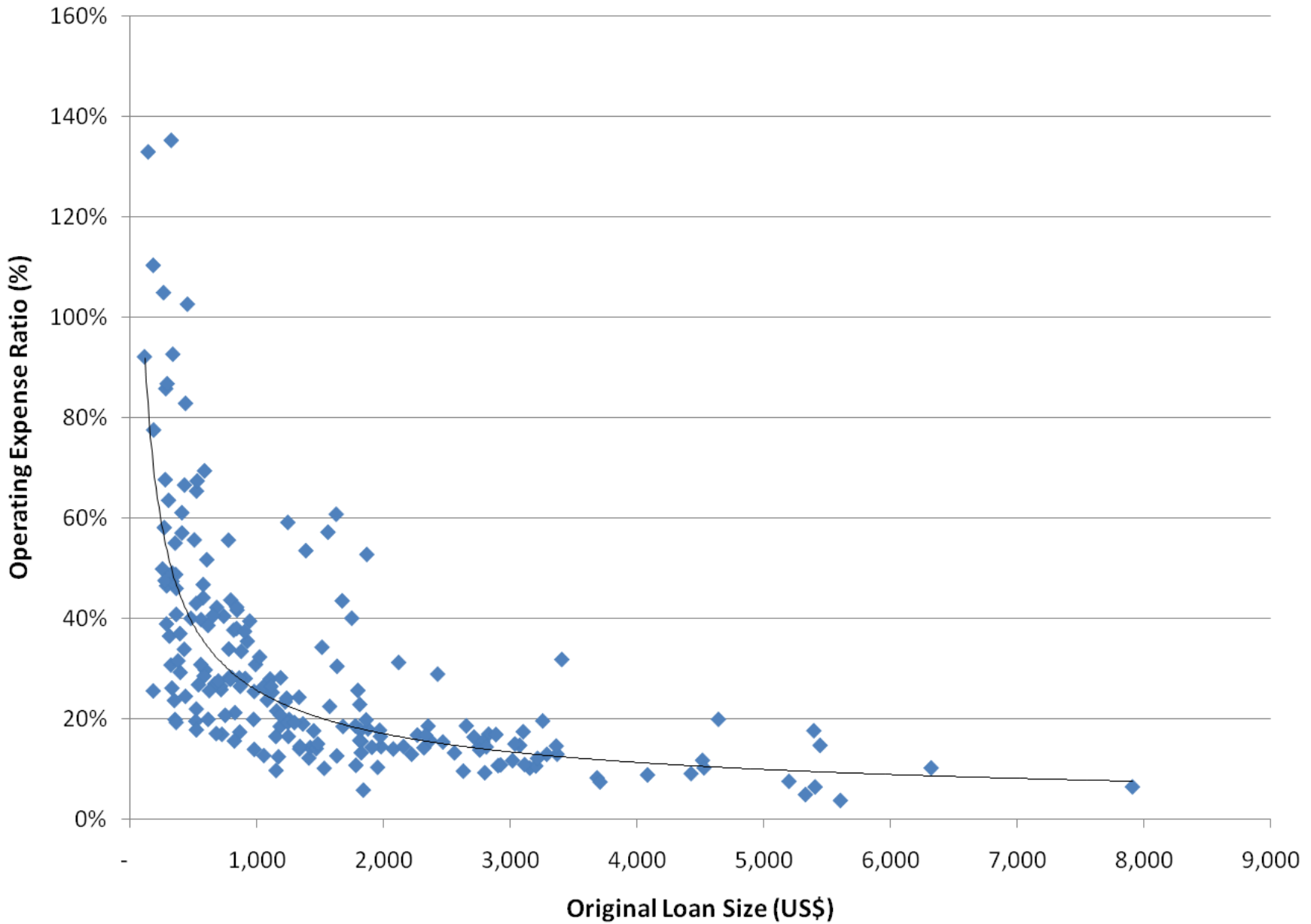
Comparison with actual industry data

- » Will use MIX data from over 600 MFIs globally
 - Data broken down into six geographic regions
- » Will look at Real Yield on Portfolio
 - Does not incorporate any diversity in product sizes within the MFI
- » Will compare with data from Opportunity
- » Will look at:
 - Interest rates vs. average loan size
 - Operating cost ratio vs. average loan size

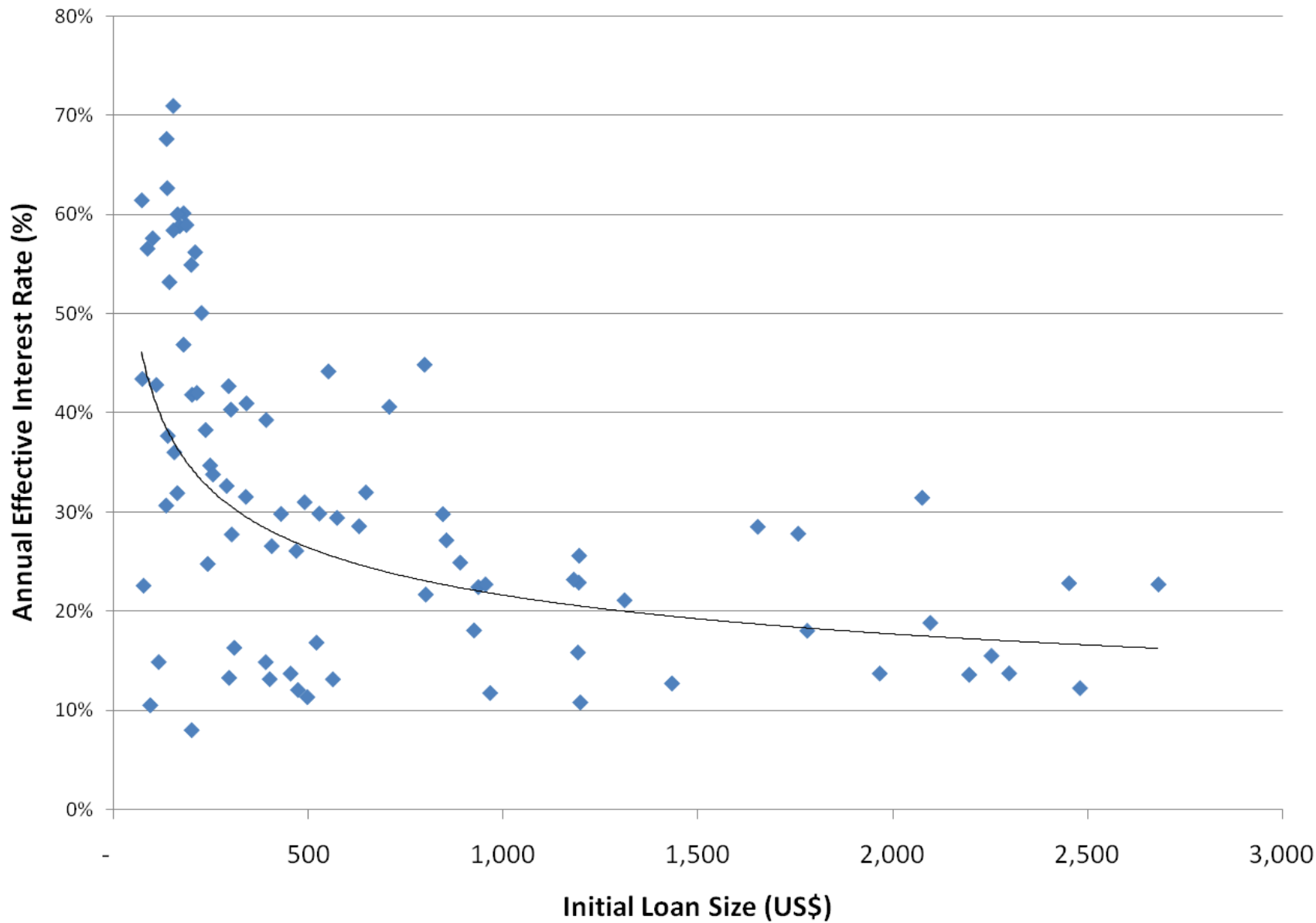
Loan Size and Interest Rate (LAC Region)



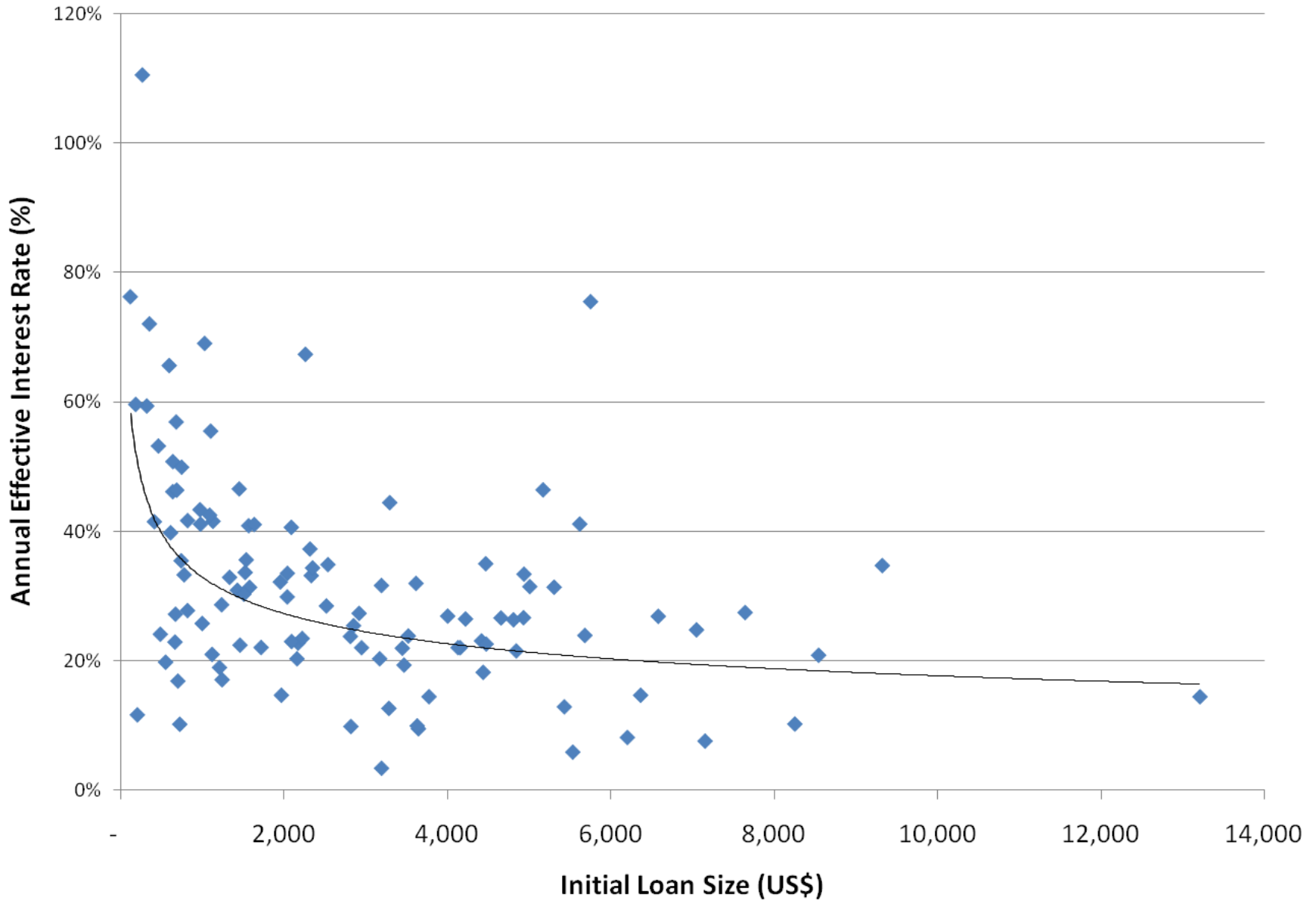
Loan Size and Op Exp/Port % (LAC Region)



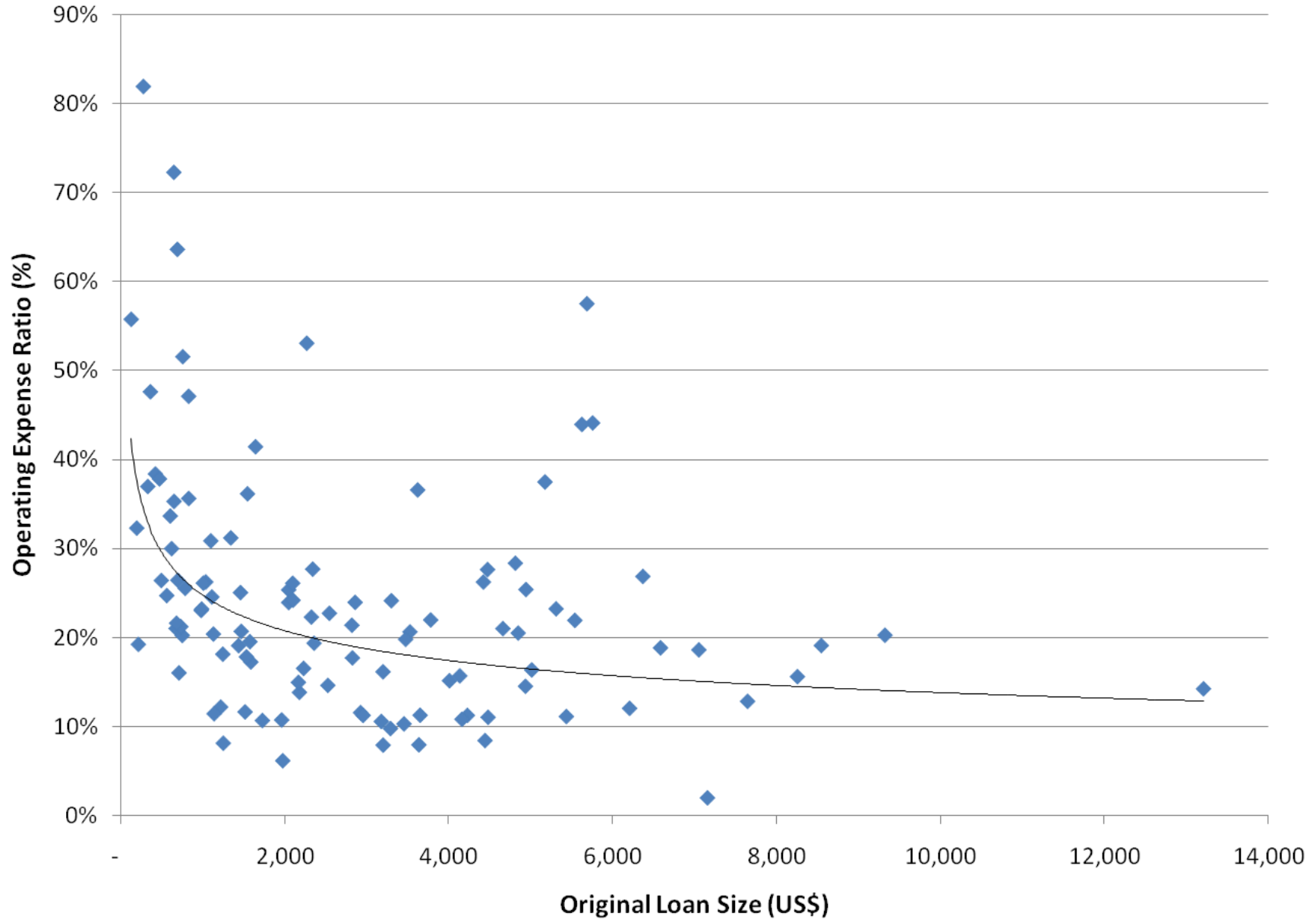
Loan Size and Interest Rate (E.Asia/Pacific Region)



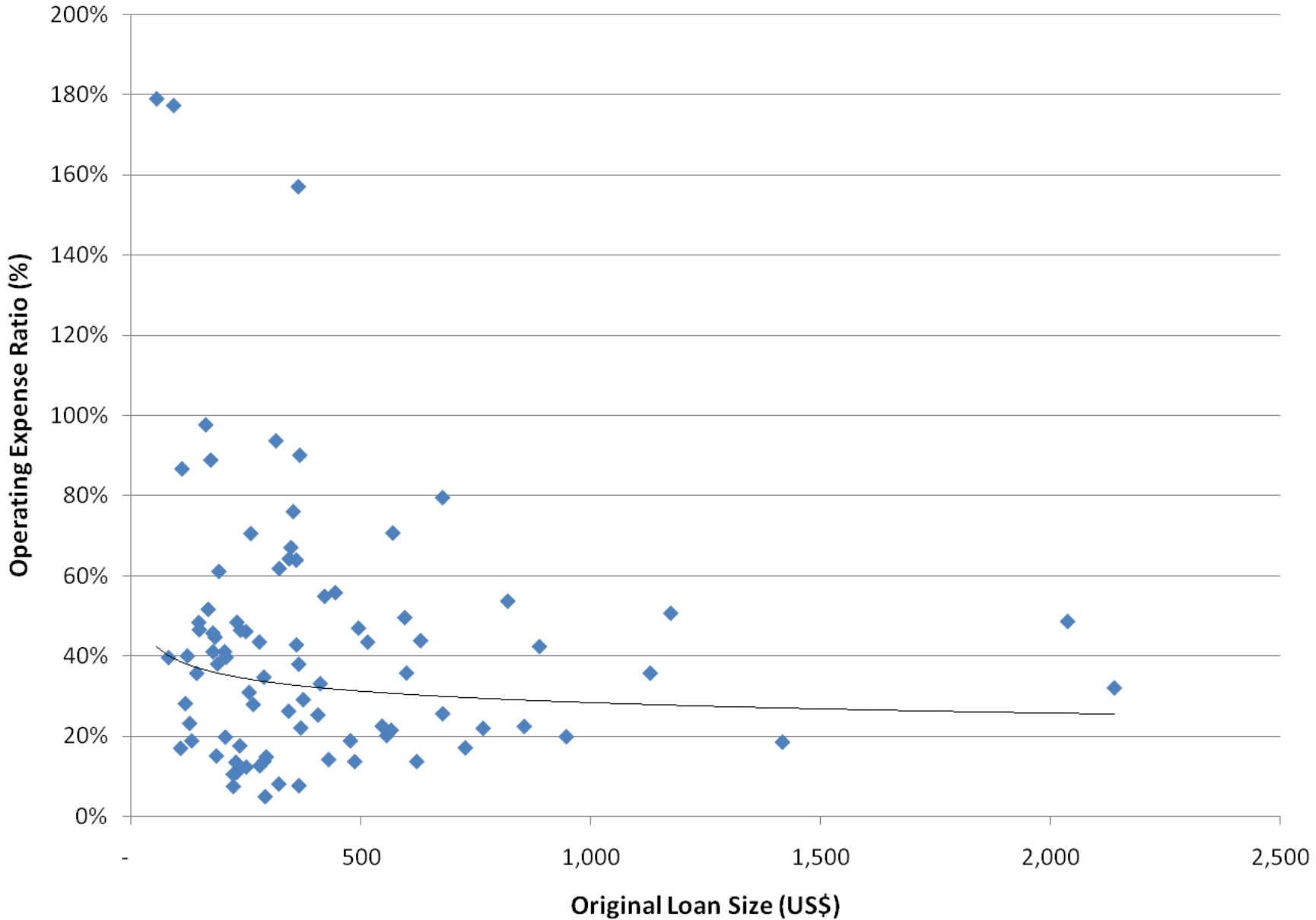
Loan Size and Interest Rate (Europe&Cent.Asia Region)



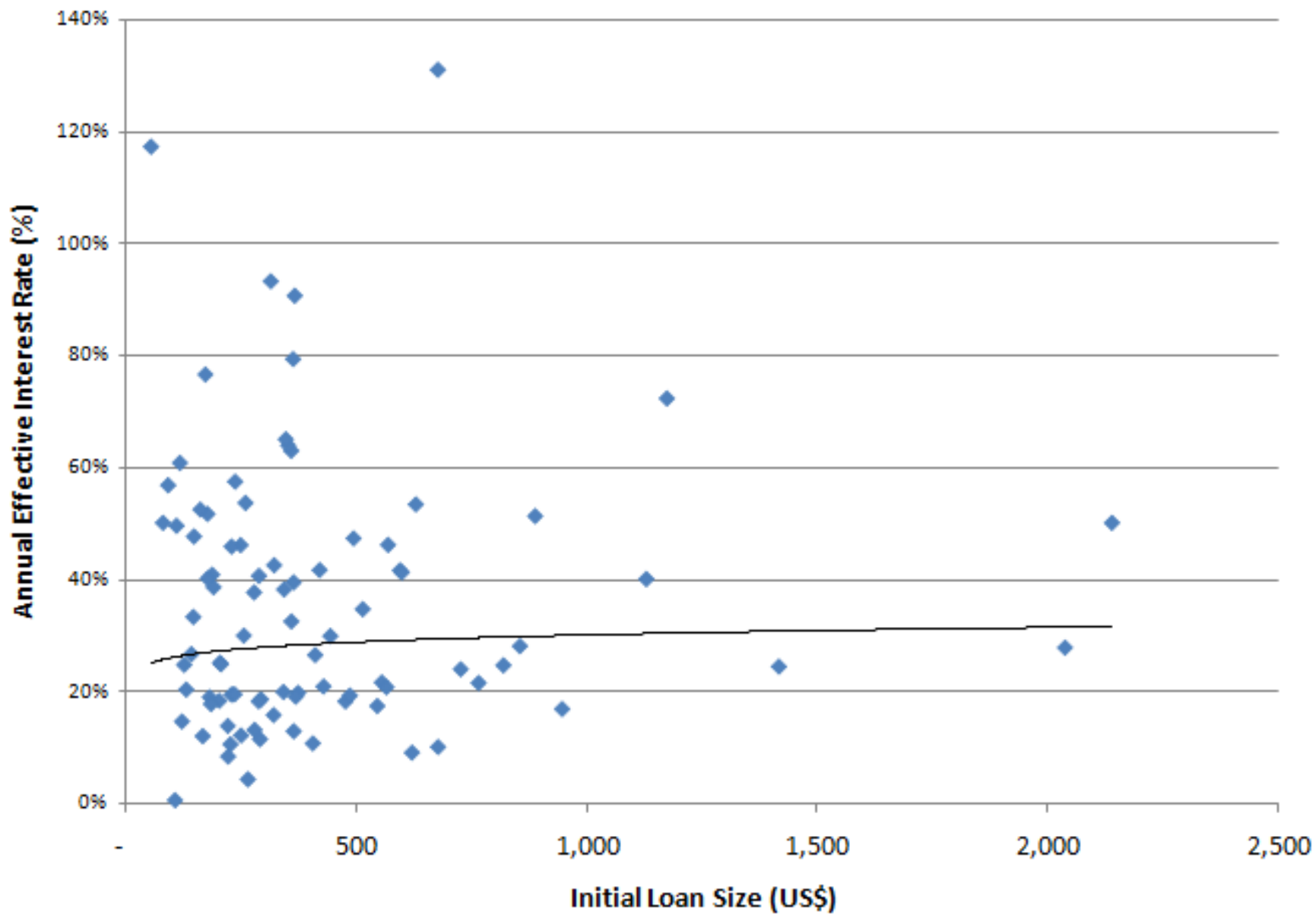
Loan Size and Op Exp/Port % (Europe&Cent.Asia Region)



Loan Size and Op Exp/Port % (Southern Africa Region)



Loan Size and Interest Rate (Southern Africa Region)



Conclusions on Pricing

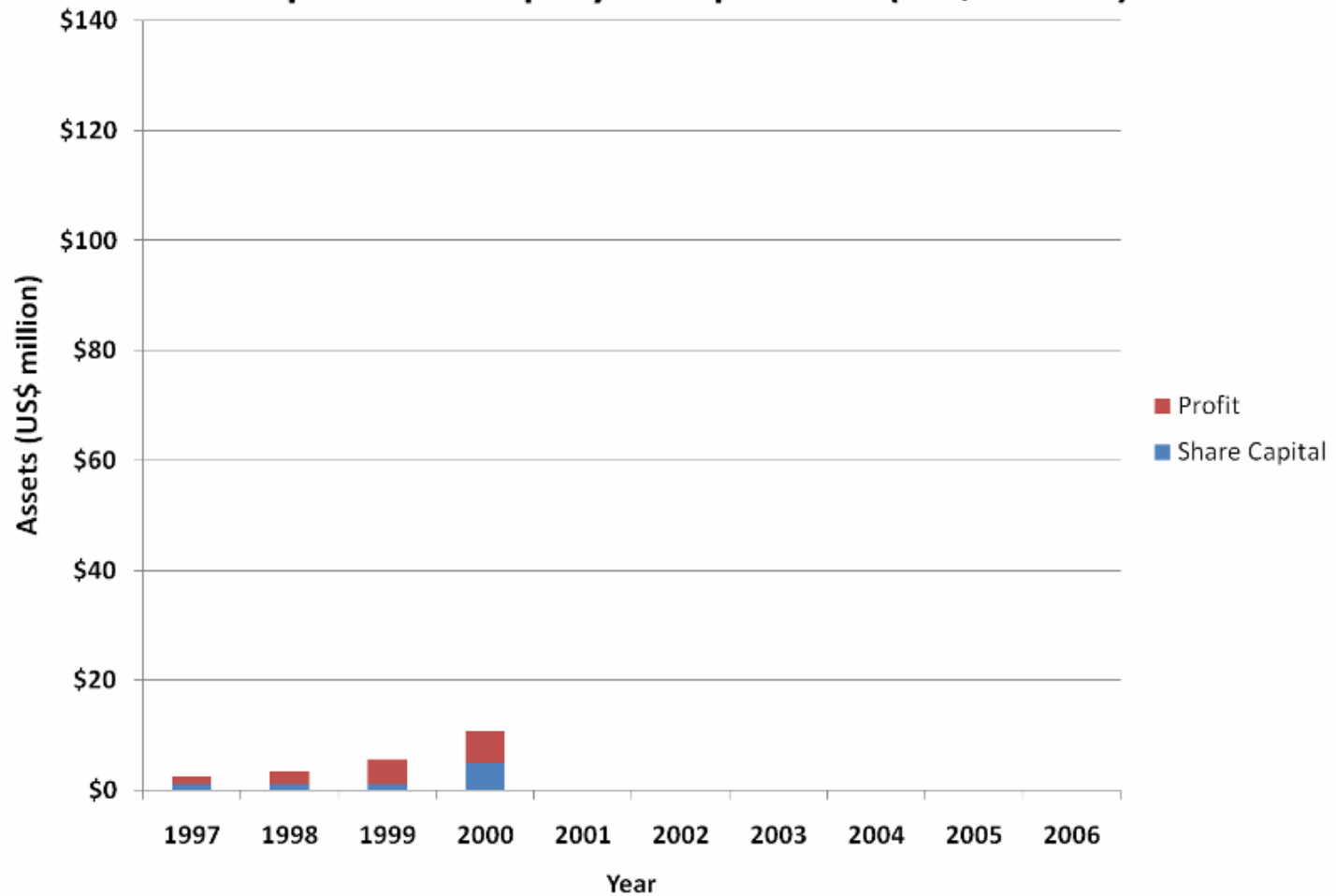
- » There is no “single interest rate” for microfinance products
- » MFIs have very different products and they need to be priced very differently
- » Communicating this to the public and educating them is difficult
- » I believe this is a major reason that we continue with non-transparent methods

Can prices be too high?

- » Prices have varied greatly in the past 20 years
- » Sustainability was our early justification for increasing prices
 - “Sustainability” has now become “profitability,” but we have no guidelines or discussions about how much profit is too much profit
- » Some MFIs are now *very* profitable
 - Have we blurred the lines between money lending and microfinance?
- » The Compartamos IPO has been advocated as the “future of microfinance.” Should it be?

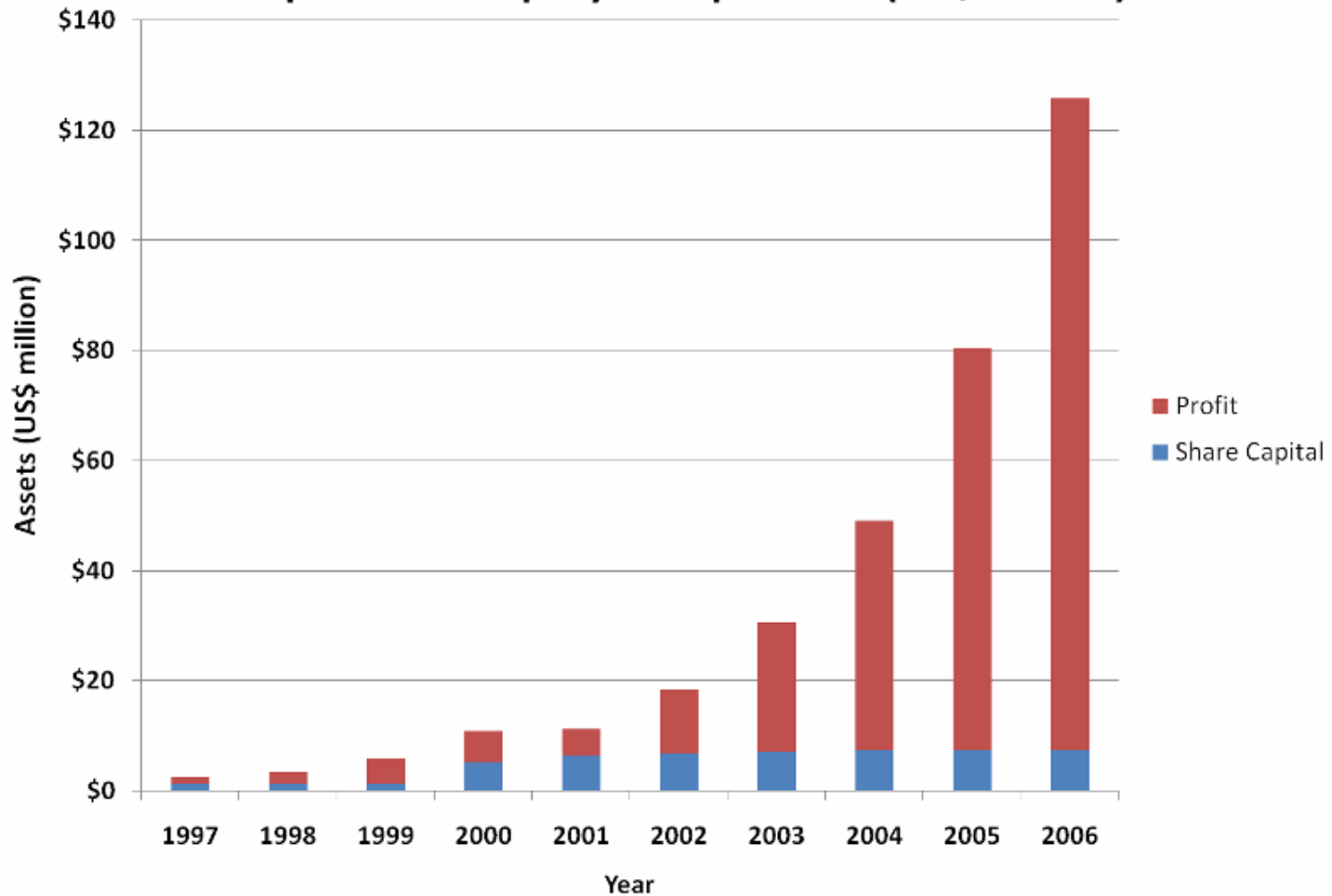


Compartamos Equity Composition (US\$million)



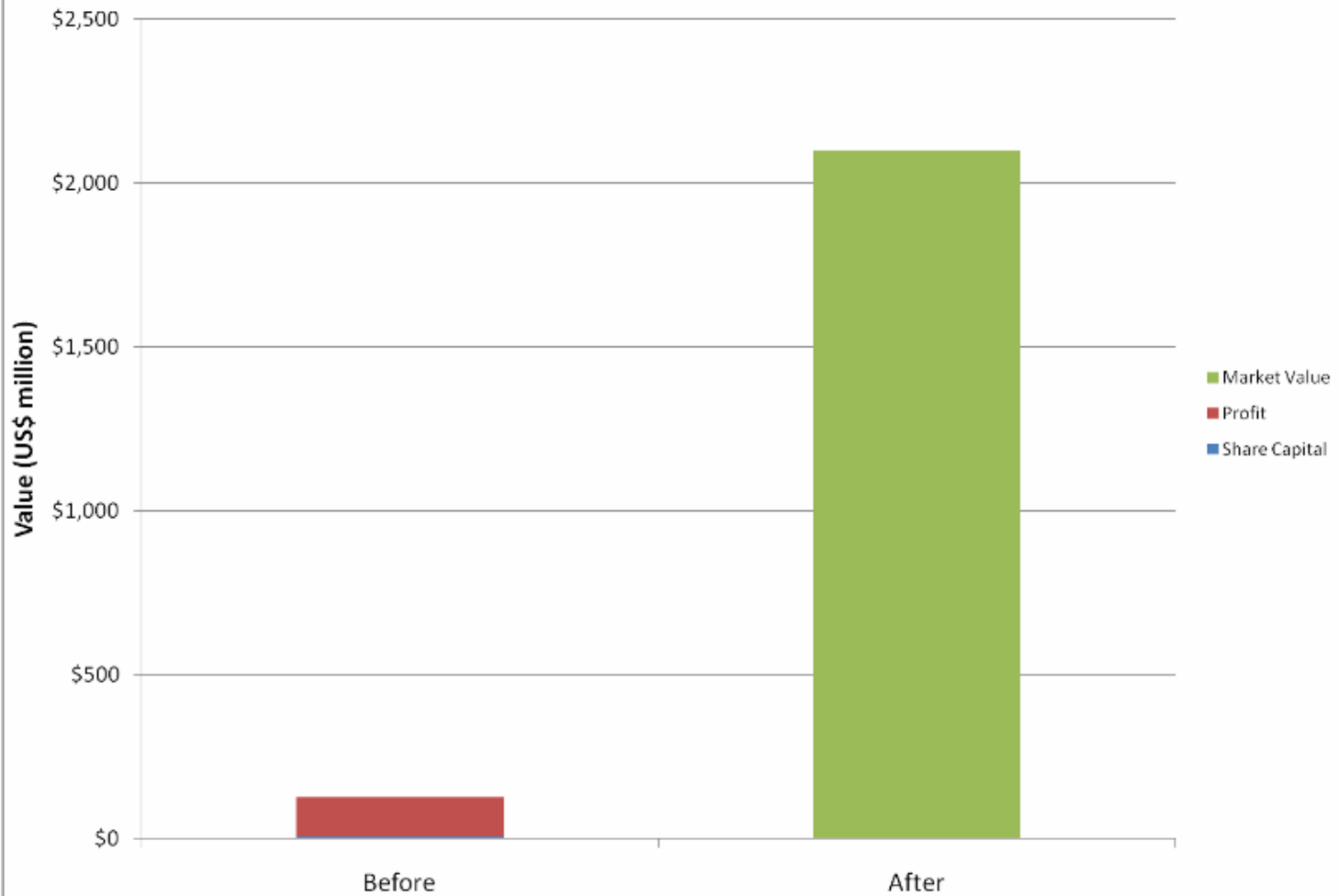


Compartamos Equity Composition (US\$million)





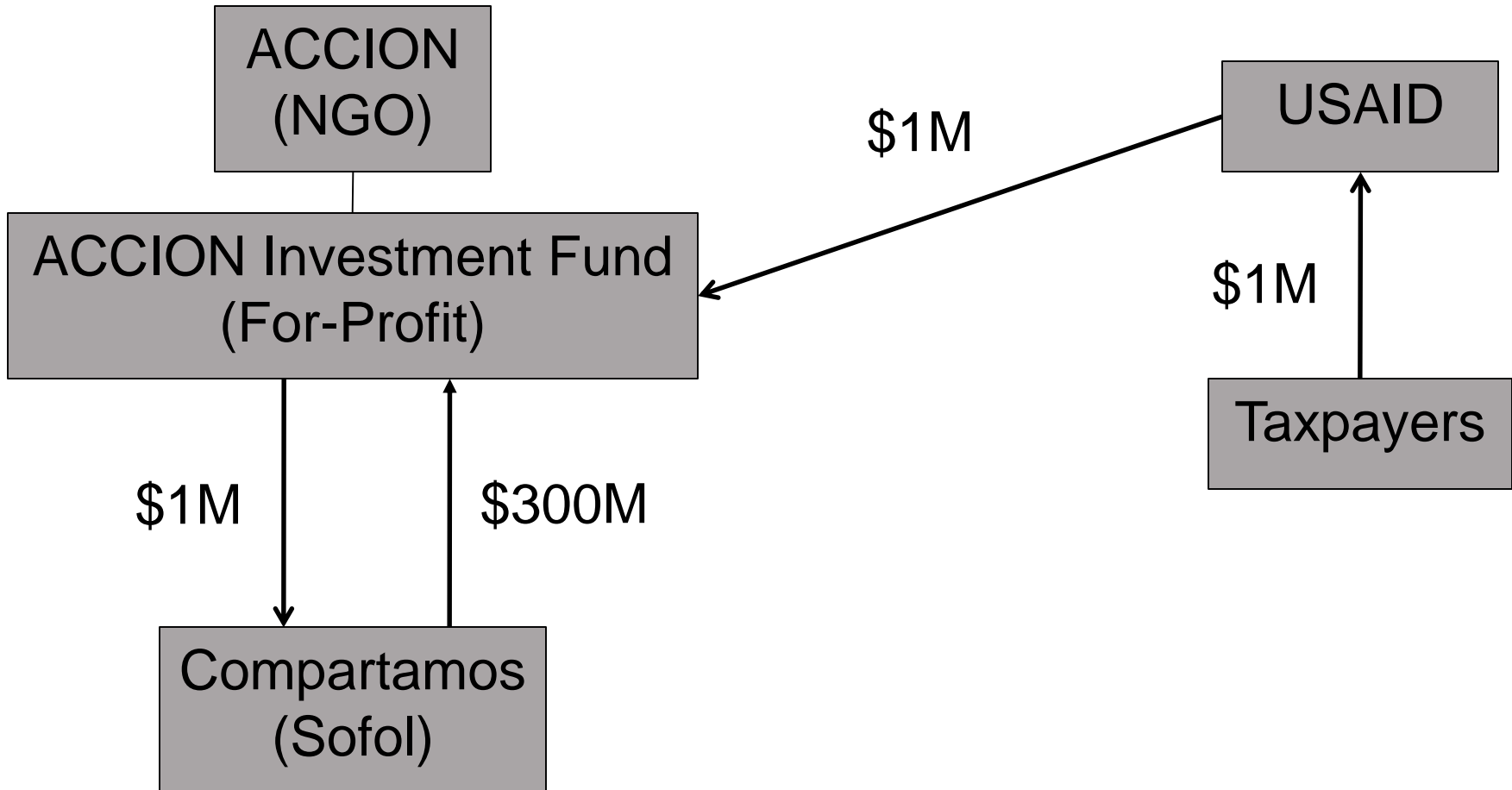
Compartamos IPO Results



Compartamos shareholders before the IPO

Shareholders	Invested	%
Compartamos AC	\$2.3M	39.20%
ACCION	\$1.0M	18.05%
IFC	\$0.6M	10.57%
18 Individuals	\$2.0M	32.18%
Total	\$6.0M	100.00%

ACCION's Investment in Compartamos



Interest rates quoted in Business Week

- » Compartamos: 105%
- » Banco Azteca: 90%
- » Wal-Mart: 86%
- » Question: *Which of these do you consider MFIs?*
 - Does the **public** distinguish them?
 - Does the **government** distinguish them?
 - Do our **clients** distinguish them?
 - Even Business Week really didn't distinguish them

Yunus on Compartamos in Business Week

"Microcredit was created to fight the money lender, not to become the money lender."

*"They're absolutely on the wrong track," says Yunus.
"Their priorities are screwed up."*

Wal-Mart and micro-lending

"We are not saints," Gómez (Banco Wal-Mart CEO) told industry analysts in a Nov. 12 Webcast. "We've come into this business for volume and profitability similar to our other businesses, or else we wouldn't invest."

quoted in Business Week

Pricing, Prevarication, Profits, and the Poor

- » **Pricing:** *Actually, it's all about the price*
- » **Prevarication:** *But few really know what the price is*
 - Prevaricate (v): to speak falsely or misleadingly; deliberately misstate or create an incorrect impression; lie
- » **Profits:** *How much is too much?*
- » **Who will Protect the Poor?** *The need for transparency, ethics, and consumer protection efforts*

At a Critical Point in our Industry

- » Microfinance is seen by some as one of the more lucrative investments in the marketplace
- » How did we reach this point?
 - Decades of innovation and testing, resulting in dramatic success
 - *Strong* efforts to raise a solid public image of microfinance as a noble means to lift the poor out of poverty
 - *Strong* efforts to attract investor money into the industry
 - *Weak* efforts to promote consumer protection policies and transparency
- » We have laid the groundwork for a new contingent of actors to enter the industry, but we have neglected to build any serious checks-and-balances necessary to protect the poor from ourselves

Where is microfinance going?

- » **Who are the actors involved now?**
 - Not just traditional MFIs, but now we have consumer finance, banks, and Wal-Mart
- » **What will public reaction be?**
- » **What will the impact on the poor be?**
- » **What impact will this have on traditional microfinance?**



We See Frequent Events Targeting Investors





IPO in Microfinance – Case Study, Lessons Learnt and Future Opportunities

As IPOs become more prevalent within the microfinance industry, their changing nature must be dissected. In this session, you will gain an insight from the individuals involved on both the financial and operational side of the leading IPO of 2007 and what this means for the future of microfinance.

- Impact of an IPO
- Effect on investment
- Practical lessons and predictions for the changing landscape of an MFI:
 - The future organizational and operational structure
 - Product strategy and change of ownership
 - New avenues for stock market investment

Panelists:

Carlos Danel, Co-CEO, Compartamos

Luca Torre, Financial Institutions Group, Credit Suisse

- » How many events do you see for microfinance investment for every one event focusing on topics such as:
 - Consumer Protection
 - Pricing Transparency
 - Defining double-bottom-line decision making
 - Financial Literacy Training

We need action steps at a variety of levels

- » Internal to individual MFIs
- » Within national networks
- » Within global networks, like Opportunity
- » Within the traditional microfinance industry
- » External to the traditional microfinance industry:
 - Consumer finance
 - Banks



Who is Responsible?

“Only some are guilty, but all are responsible”

Rabbi Abraham Heschel

We are not guilty, but we are now responsible to make efforts to restrain the negative impacts that our industry can and will have on the poor. We need to hold our industry to the standards of building assets and wealth *for* the poor, and not found guilty of practices that strip assets and wealth *from* the poor.

My Proposal for Pricing Transparency

- » It's all about the price
- » And few really *know* the price
- » And there really isn't a single "fair" price
- » We need a consistent means to measure and report these prices
- » We need to correlate prices to loan sizes
- » We need to make this information publicly available
- » We need to educate the public on how to access and understand this information
- » For this approach to be successful:
 - It needs to have wide buy-in and support
 - It needs to be objective, non-judgmental, and independent



What actions will you take?

- » What steps will your MFI take:
 - Internal to your institution?
 - Within your national market?

- » What steps will Opportunity take:
 - Internal to the network?
 - More broadly throughout the industry?



How should Opportunity respond?

- » Be **honest** about the interest rates
- » Be **transparent** in reporting
- » Take **leadership** role in consumer education & protection



Fair and Transparent Pricing Policies

Proposed Guidelines for Discussion

Chuck Waterfield, 13 February 2008

Level 1: Principles We Apply Internal to our Institution

Transparent pricing: We give clients complete and understandable information about the true costs they are paying for loans and transaction services and how much they are receiving for savings.

Fair pricing: We price our services at fair rates. Our rates will not provide excessive profits, but will be sufficient to ensure that our business can survive and grow to reach more people.

Level 2: Principles We Advocate at the National Level

Level 3: Principles We Advocate at the Global Industry Level

Questions to Consider:

- 1) Do you think these are the correct factors to consider for Opportunity's interest rate guidelines?
- 2) What would you need to do to implement guidelines such as these?