

Information on the Microcredit Stock Exchange

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Summary

To help meet the capital needs of small, disadvantaged businesses located in underserved areas in the District, we suggest the creation of a Washington, DC Business Micro Stock Exchange, modeled on the work pioneered by this years' winner of the Nobel Peace Prize, Muhammad Yunus and the Grameen Bank.

The MicroCredit Stock Exchange imposes specific community development goals on financial institutions (brokerage firms, investment banks, insurance companies) doing business with or in the City, much like the Community Reinvestment Act (CRA) imposes on banks. When banks merge, CRA regulations require banking authorities to certify that the banks involved do not have a history of discriminating against persons of color or low income persons. CRA has stimulated billions of dollars of profitable, high social impact lending, provided to underserved communities nationwide. In this way, the Act encourages depository institutions (banks and thrifts) to help meet the credit needs of the communities in which they operate.

Equity capital, or shares in micro businesses would be traded on a Micro Business Stock Exchange created and managed by a third party entity. The Exchange would provide the framework for the provision of small amounts of equity capital (\$1,000 to \$250,000) to micro businesses in Washington. To make things easier and to enhance the probability of success, we suggest the initiative focus specifically on disadvantaged businesses operating in far Northeast and in Southeast.

The mechanics are simple: small businesses with capital needs prepare business ready financing proposals that are put before investors on a trading floor managed by the Exchange. Investors review the businesses and their plans and decide whether or not to invest. The plans and the businesses themselves would be authenticated by a set of independent third parties, say, Operation HOPE Inc., ACORN¹, the City's Office, of Small Business Development, and representatives from the local Minority Business Opportunity Center. Terms of any investment would be determined by a standardized contract.

Graphically, the process is outlined below:

Figure 1. Firms come to the Exchange for Consideration. Various partner firms (ACORN, DC Chamber of Commerce, D.C. Office of Small Business Development) provide business development services and help the businesses prepare financing proposals detailing and describing their financial and business needs. In the graphic below, the micro businesses are represented by A,B, and C. The evaluation and business development partners are represented by the funnel.

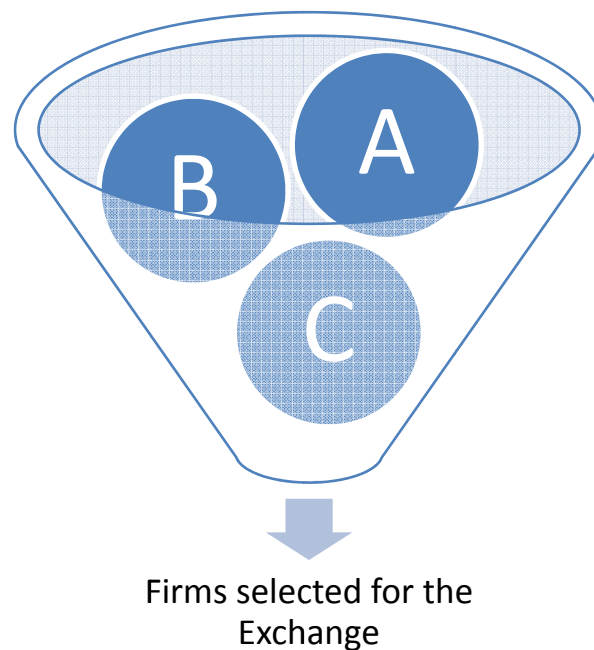


Figure 1

¹ Note: We have not yet contacted any community groups to determine their wiliness to serve in this, or any other, capacity.

Figure 2. Once selected for listing on the Exchange, the firms agree to abide by the terms of a listing contract. The contract is standardized and spells out reporting obligations, ownership rights and partner roles and responsibilities.

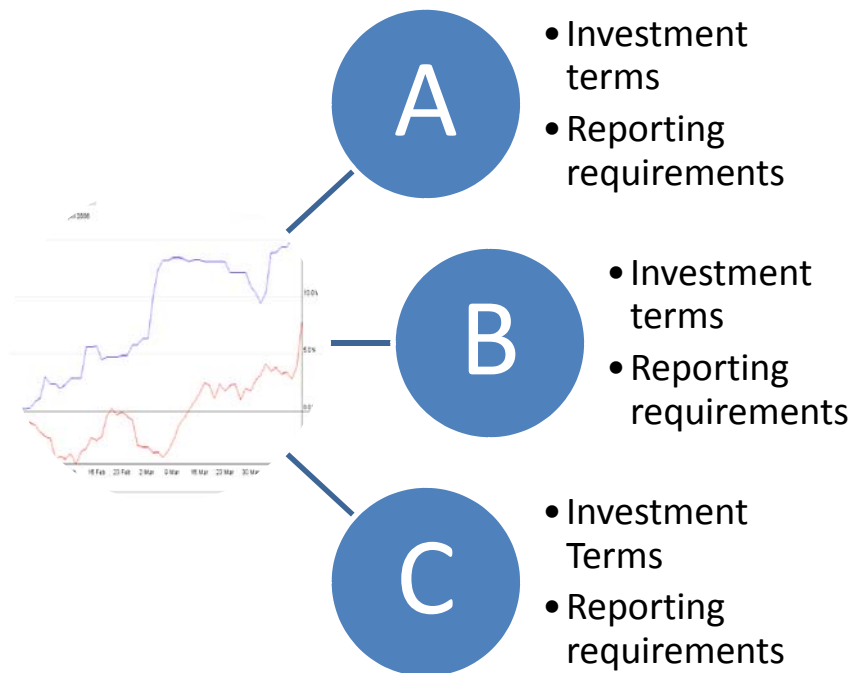


Figure 2

In Figure 2 above, the contract is represented by bullet point text denoting the investment terms and reporting requirements contained therein. The Exchange is represented by the graph.

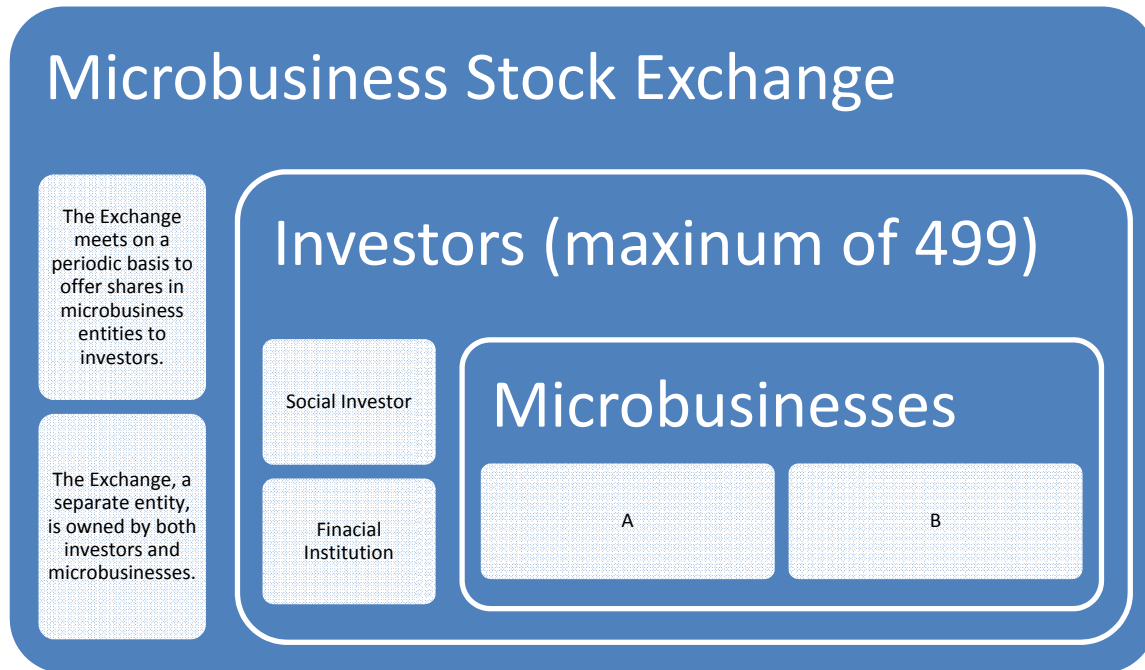


Figure 3

Legal and Regulatory review

The Exchange would be closed to small individual investors. Further, we anticipate that the microcompany stocks traded on the Exchange would not be registered with the U.S. Securities and Exchange Commission and would not be subject to SEC regulations. The total number of investors on the Exchange will initially be kept well under 499, the trigger point that requires a company trading stock on any exchange to register as a public company. *(A legal opinion concerning this statement has not yet been obtained.)*

We note that several firms have recently launched private exchanges. Goldman Sachs launched a platform, CS True (Goldman Sachs Tradable Unregistered Equity) that "made its debut (two weeks ago) with an \$880 million sale of a 15% stake in Oaktree Capital Management." A local firm, Friedman Billings Ramsey Group, Inc. "has sold unregistered stock for numerous companies in real estate, energy and lodging."

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Budget

To determine the feasibility of the Exchange, we request funding from the Government of the District of Columbia.

Funding for Feasibility Study – Microcredit Stock Exchange	Cost
Obtain legal opinion concerning structural and regulatory issues from counsel	\$6,500.00
Outline needed Microbusiness investment contract terms and conditions	\$5,000.00
Interview selected potential investors	\$5,000.00
Interview selected business development and service partners (DCG, ACORN, etc.)	\$5,000.00
TOTAL	\$21,500.00

Our suggestions are specific, fit well within the business activities and framework of the City, and will give the City a competitive advantage over the long term.

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