



CONCEPT DOCUMENT



INTRODUCTION

The cooperative movement has relied on multiple sources to fund the startup and growth of cooperatives throughout the United States. Although credit unions are also part of this movement their funding model lies with the deposit and lending relationship they have with their members.

Funding for other types of cooperatives is difficult and expensive, relying on commercial lending as the main source for funding. This reality has slowed the development and expansion of these organizations and the ability to grow participation in the cooperative business model nationwide.

Our primary concept is to use the financial power of credit union members to support other cooperatives by making available funds for development and expansion that are affordable and with good terms.

EXECUTIVE SUMMARY

This project's purpose is to create a new business model of collaboration between the credit union movement and the greater cooperative community in the United States. A new type of share certificate, the Giving Certificate, and the introduction and promotion of Co-op Investment Notes (which are already in the marketplace) allow members to financially support the co-op movement at the individual member level. This overall concept of credit unions being a financial backer of the greater cooperative community will help demonstrate that credit unions see themselves as part of a bigger cooperative movement and its ability to be a leader in that movement.

It should be noted that this level of collaboration has already started at Filene with previous i³ teams. One recent project WHY COOP?, is a website meant to connect cooperatives of all types with individuals. It will be available for browsing by the general public in order to build awareness of the cooperative movement and increase opportunities to more fully participate in co-ops of all kinds. This site could easily be a conduit for credit union members who want to financially participate and support co-ops in their community.

OPPORTUNITY

In today's business climate cooperatives need capital just like other for profit businesses. Food, worker, purchasing, agriculture, and housing co-ops are all in need of equity capital for start up and expansion activities, but the nature of the cooperative business model places them at a competitive disadvantage for raising equity. The opportunity is to create mechanisms to mobilize resources by and for cooperatives and develop a clear and simple way for the greater co-op movement to invest in cooperatives. Though access to equity capital is a problem for cooperatives, it is also symptomatic of a greater challenge faced by the cooperative community – making the case for co-ops. By having a more formal approach to equity funding will help make that case.

The opportunity is to match the financial power of 90 million credit union members nationally, along with their credit unions to the equity capital needs of cooperatives throughout the United States either through direct socially responsible investing or by a direct donation via the Giving Certificate to a cooperative equity fund.

ENVIRONMENTAL SCAN

Attitudes about giving: "People helping people" resonates deeply within the credit union membership. After all it is the social purpose of the credit union difference according to the Credit Union National Association. It also speaks to the social landscape in which 67% of American households give an average of \$1,872 a year to their communities, according to Dr. Brian Kluth. One might think that given our current economic climate, people do not have the means to give. Partially this is true, as historical data indicates that giving does go down during economic down times, but does not stop. Many people are giving in the form of non-cash contributions. According to idonate.com, the number one non cash contribution is a stock or investment.

Supporting cooperatives through investment: Throughout the course of our research, we determined that cooperatives have a large impact on our financial environment. This is illustrated in a University of Wisconsin study by the Center for Cooperatives: "nearly 30,000 U.S. cooperatives operate at 73,000 places of business throughout the United States. These cooperatives own greater than \$3T in assets, and generate greater than \$500B in revenue and greater than \$25B in wages. Extrapolating from the sample to the entire population, the study estimates that cooperatives account for nearly \$654B in revenue, greater than 2M jobs, \$75B in wages and benefits paid, and a total of \$133.5B in value-added income. Americans hold 350M memberships in cooperatives which generate nearly \$79B in total impact from patronage refunds and dividends. Nearly 340M of these memberships are in consumer cooperatives". (<http://reic.uwcc.wisc.edu/issues>). Further delineation of the model is noted below:

Aggregate Impacts by Sector¹

Sector	Revenue*	Income*	Wages*	Employment (jobs)	Firms	Estab.
Commercial Sales and Marketing	201,207	37,737	13,810	422,505	3,463	5,695
Social and Public Services	7,525	2,213	1,690	424,505	11,311	11,311
Financial Services	394,363	100,661	51,176	1,133,353	9,964	50,330
Utilities	49,808	13,392	8,292	162,873	4,546	5,657
Total	652,903	154,002	74,969	2,143,236	29,284	72,993

¹ Doesn't include housing co-ops

* Million Dollars

This provides evidence of the economic support of cooperatives, but these organizations have very deep roots. Cooperatives "have been responsible for many market innovations and corrections of market imperfections" according to this same study. They also support individual communities through:

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- Achieving economy of size
 - Increasing bargaining power
 - Sharing costs of new technology
 - Adding value to products
 - Gaining access to new markets
 - Reducing risks associated with new enterprises
 - Obtaining new services
 - Purchasing in bulk to achieve lower prices
 - Providing credit under reasonable terms.

Cooperatives have such have a huge financial impact in our environment. These organizations are supported by members and the communities they benefit.

As we noted in the Giving section, people have a desire to provide financial support. We see some of this support illustrated through such things as the Equal Exchange CD from Wainwright bank. www.wainwrightbank.com Individuals support cooperatives through the purchase of this three year CD. The investment is conventional in its terms but uninsured. Funds are used to support Equal Exchange Cooperative, Fair Trade, and small farmer partners across the world. Those who purchase the CD earn competitive rate of return and support Equal Exchange Cooperative at the same time.

An additional example is The Cooperative Fund of New England (CFNE). This is a socially responsible investment fund that will invest in cooperative business in the form of investment notes for patient capital, or equity-like financing. www.coopcapital.coop

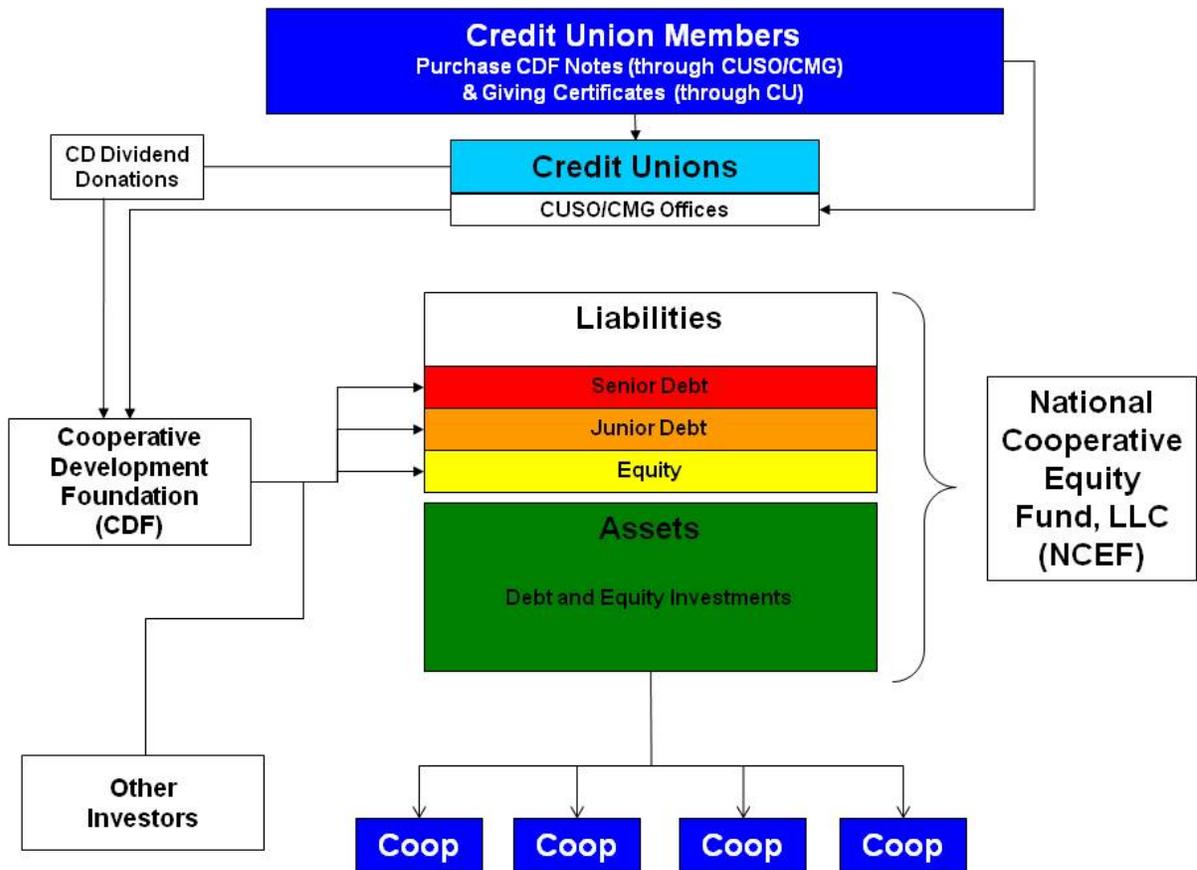
There are numerous equity funds like CFNE and foundations, like the Calvert Foundation already established across the country offering investment notes. Therefore, our focus is on developing a mechanism to provide dollars from credit union members to those funds.

SOLUTION

Our solution is two-fold: 1) An insured certificate product where members contribute a percent of the dividends to an equity fund matched by the credit union, and 2) An investment product that allows members to add as part of their investment.

The Giving Certificate: For credit union members who would like to support the cooperative movement beyond being a member of a credit union the *Giving Savings Certificate of Deposit* is a Savings Certificate that allows members to contribute a portion of the certificate dividend to one of the Co-op Equity Funds that provide equity financing to other types of cooperatives in the United States. Members would purchase the certificate at their credit union and a portion of the dividend would be sent to the equity fund. The portion sent would be determined by the member and is expected to equal between .25% and .50% of the certificate dividend rate at maturity. The certificate is fully insured and remains at the member's credit union. The credit union could also opt to match the portion of the dividend collected, in theory, doubling the donation.

Investment Notes: Along with the Giving Certificate credit unions would also be encouraged to offer several Investment notes that are uninsured investments. These Notes could be offered through a credit union's financial planner, such as CUNA Mutual. In discussions with CUNA Mutual, there seemed to be a willingness to make available this opportunity for socially responsible investing. As mentioned earlier, there are several equity funds that offer investment notes available now. We included this option to give members several ways to participate in supporting the cooperative community.



MEMBER BENEFITS

Members who are certificate buyers/investors will be eligible for a tangible financial return, inherent to any investment. Beyond the financial return, investors will receive an intangible benefit because they will leverage their social impact within the community. This is because:

- Investor resources will help put people to work through cooperation.
- Investors will support organizations with aligning cooperative values.
- Investors will reduce the risk of overall investment because the financial support allows resources to be spread across many projects.
- Investors will build the cooperative economy across all co-op sectors and industries.
- Investors will support cooperative sustainability.

CREDIT UNION BENEFITS

Credit Unions who offer either the Giving Certificates or investment notes to their members will enjoy benefits as well. They are tangible and intangible from the stand point of:

- Increased deposit dollars through member investment.
- Deeper member relationships through additional deposit products as a part of the member relationship.
- Support of the cooperative movement on a local, regional or national level.
- Build awareness of the credit union as a good corporate citizen.

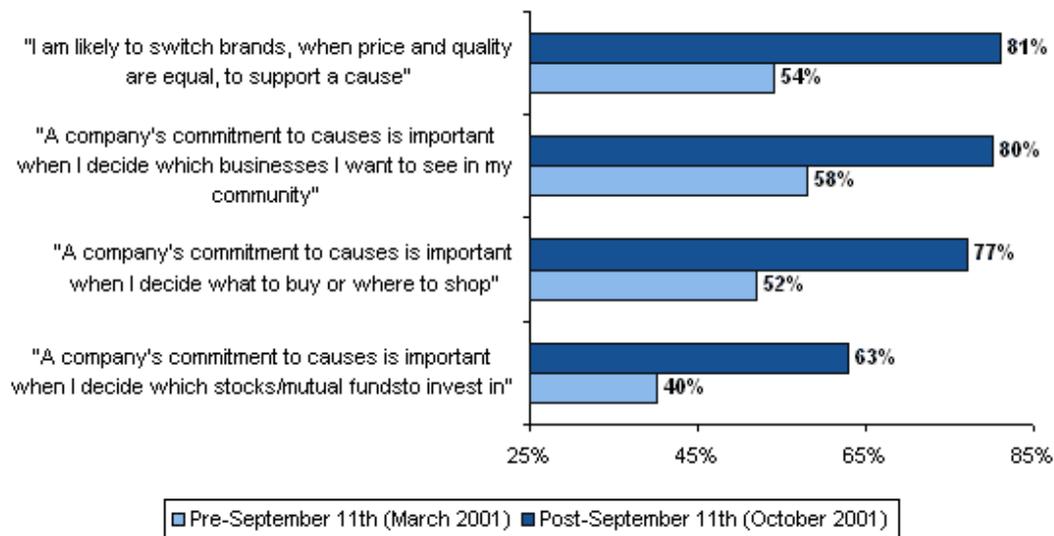
TARGET MARKET

The target market is made up of two primary groups. The first group is defined as the “true believers.” These are people who are passionate about cooperatives and see distinct advantages that cooperative business model brings to the American economy. The second target market is comprised of the “what’s in it for me” group. These cooperative supporters are looking for ways to grow their portfolios.

According to Charity Brands Marketing: (www.jamicharity.com/trends.html)

- 81% of Americans are likely to switch brands to support a cause.
- 80% say a company's commitment to causes is important in deciding which businesses they want in their communities.
- 77% say a company's commitment to causes is important in deciding what to buy or where to shop.
- 63% say a company's commitment to causes is important in deciding which stocks/mutual funds to invest in.

Although this data is geared towards tangible products many of the statistics can be interpreted in the financial arena.



Source: Cone/Roper, October 2001

Targeting a credit union member base for the Giving Certificate would include those households that currently hold certificates in the credit union. These members tend to invest in certificate products already and may find the “give back” portion of the dividend to be philanthropic and easy to administer. According to the Cone/Roper report, consumers are heavily influenced by cause marketing and the effects it has on their community.

Targeting households with high wealth and those that currently have a money market account with the credit union gives access to those households that have the financial ability to support a less than at market certificate product.

GEN Y individuals may be considered a market opportunity for this product as these members tend to be socially conscious, however, may not have the financial stability to support a large certificate investment.

Based on the survey TEAM COOP conducted, the importance of the dividend portion going to a local coop weighed heavy in the results. Finding a way to couple dividend contributions to a local fund may be a key component to the success of marketing this product.

OPERATIONAL AND OTHER CONSIDERATIONS

The draw back for some credit unions may be the ability to fund and support the give back as a tax deduction to the charity or local co-op organization. Core processors do not currently have the capability to withdraw a % of dividends from individual accounts and maintain information necessary to deliver tax documents to members.

While this would give additional incentive to members who could use the donations or tax deductions, proof of concept has shown that members are still willing to participate for the good of their communities. Many businesses already use this concept when they market a portion of each purchase will be donated to a cause.

WINTEGRITY, another i³ project, might be adapted to this cause as well. It is a website that provides an open transaction between borrowers and investors. The depositor is able to direct specific funds from this account to specific business such as cooperatives. The concept of using other i³ projects in a concerted effort was not developed in this concept document but surely has the potential to make this concept more effective.

PROOF OF CONCEPT

North Country FCU's socially conscious certificate called the United Way CD is an example of the proposed Giving Certificate. This certificate is for 11 month term, \$500 minimum and .25% APY is donated to the local United Way.

Using actual numbers from North Country FCU's socially conscious certificate, we anticipate the following results from our Giving Certificate at our 5 credit unions, within 18 months of implementation.

- Our 160,147 members will have 498 Giving Certificates.
- These certificates will total \$7,045,945.
- These certificates will average \$14,154.71, 1.26% of all certificate dollars and will be 38% smaller than other certificates.
- Members and credit Unions will be donating \$2936 per month to the Cooperative Development Foundation.
- Every \$1M in certificates will add \$416.66 (\$208.33 each from members and the credit union) in donations.

	# of Members	Total # Certs	Total Cert \$'s	AVG/Cert	# Giving Certs	Giving Cert \$'s	AVG/Cert
North Country	20,861	4,540	\$81,326,383	\$17,913	93	\$1,200,000	\$12,903
Carter Federal	23,777	2,575	\$47,921,281	\$18,610	53	\$709,235	\$13,436
Rogue Federal	44,086	6,267	\$143,645,812	\$22,921	128	\$2,125,958	\$16,548
Umass Five College	23,459	5,852	\$100,020,823	\$17,092	120	\$1,480,308	\$12,339
Greater Nevada	53,358	7,140	\$167,693,400	\$23,486	146	\$2,481,862	\$16,956
CTCE	15,467	2,448	\$16,796,070	\$6,861	50	\$248,582	\$4,953
Totals	160,147	24,282	\$557,403,769	\$22,955	498	\$7,045,945	\$14,155

We also conducted a survey at three credit unions asking people about their propensity to participate in the Giving Certificate Model. What we discovered is that people are much more likely to participate in this model if the funds are given to a local cooperative.



GETTING STARTED

- 1) Know your audience: A quick survey online may help you determine the acceptance this certificate product and also identify specific segments to focus your marketing efforts.

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- 2) Sales Savvy: Create training for staff so they understand the value of the Giving Certificate, and the options for members to participate in socially responsible investing through the Investment notes.
 - 3) Equity Fund Collaboration: Through your credit union's Financial Planner establish a list of potential Co-op Equity Funds that could be offered to your members. Keeping the fund local may be more of a selling point to your members. The National Cooperative Business Association (NCBA) can provide a list of Equity funds in your area. www.ncba.coop
 - 4) Get the word out: Developing a public relations campaign around the Giving Certificate has real value for your credit union. It is inexpensive to conduct and will add credibility to the program and your credit union as a good corporate citizen. It will also build the awareness you will need to move the program along.
 - 5) Collateral Materials: The marketing of the Giving Certificate is suggested using traditional efforts such as; direct mail & statement inserts. You can also use low cost awareness builders like website banner ads, and on hold messages.

MARKETING TACTICS

- Design a marketing piece using the Giving Certificate graphics and your logo.
- Use your MCIF software to identify those members who may have a propensity for purchasing certificate products.
- Introduce the program to your staff with an in-house event.
- If your credit union is working with a financial planner pursue the investment notes as an alternative investment they can offer. Leave collateral material on the Giving Certificate with them as well.
- Develop a PR campaign to kick off the program and set a dollar goal for the coming year to work toward.

PROJECT TEAM

Filene i³ is a creative group of insightful and energetic credit unions professional who develop new ideas, innovate, and implement for the benefit of the credit union system. Please visit filene.org/home/innovation or email innovation@filene.org to learn more. The team members who developed this idea are:

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