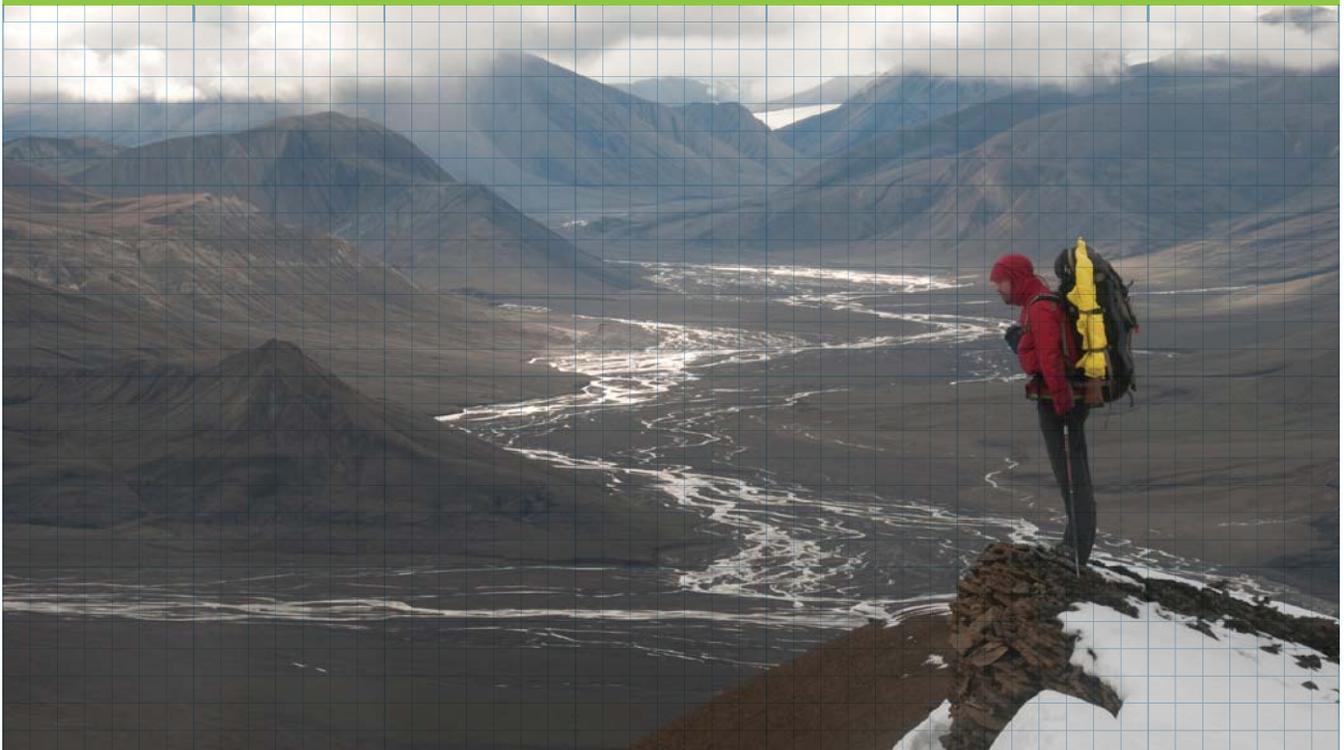


BLUEPRINTS FOR INNOVATION

Denise R. Gabel
*Chief Innovation Officer,
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IDEAS • INNOVATION • IMPLEMENTATION

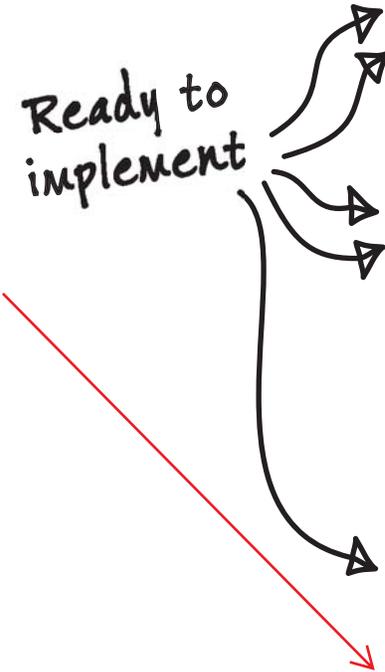


Key Findings

BLUEPRINTS FOR INNOVATION

Early 2011

Ready to implement



INTRODUCTION

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**Currently calling for pilots*

CO-OPS

FINANCING

CO-OPS



CO-OPERA

THE OPPORTUNITY

Large segments of the population support cooperatives:

- More than 800 million people around the world belong to cooperatives.
- In Canada, 1 in 3 individuals is a member of a cooperative (33%).
- In the United States, 1 in 4 individuals is a member of a cooperative (25%).

Cooperatives are significant economic contributors to national economies:

- Canadian maple sugar cooperatives produce 35% of the world's maple sugar production.
- In the United States, more than 30 cooperatives have annual revenue in excess of \$1 billion. In 2003, the top 100 U.S. cooperatives had combined revenues of \$117 billion.
- In addition, approximately 30% of farmers' products in the U.S. are marketed through 3,400 farmer-owned cooperatives.

It's clear how vital cooperatives are to the world economy, and consumers enjoy significant benefits from their successes. However, it can be challenging for co-ops to obtain traditional financing because their business structure is often unfamiliar to lenders. The prospect is made even more difficult if their balance sheet is not strong and/or they lack reserves for unexpected expenses.

Case in point: Co-ops, such as ICC Austin, which provides affordable housing for students at the University of Texas, often find themselves looking for creative solutions to the financing conundrum.

COOPERATIVES CREATE AND MAINTAIN EMPLOYMENT:

- Cooperatives provide over 100 million jobs around the world, 20% more than multinational enterprises.
- In Canada, cooperatives and credit unions employ over 160,000 people (comparable U.S. figures not available).¹



¹ International Co-operative Alliance, <http://www.ica.coop/members/member-stats.html>.

THE SOLUTION

Co-Opera sets up a mechanism for one cooperative to borrow from another on their own terms. Co-Opera would help facilitate the process, protecting the cooperatives, and providing third-party help when needed. Potential lending co-ops and credit unions could identify potential borrowing co-ops in their region or within their field of interest by sorting the database by type, geographic location, need, size, etc.

Bringing Co-Opera to market would require extensive collaboration by stakeholders that would include:

- Filene i³ team.
- International cooperative organizations.
- Industry-specific cooperative organizations.
- Credit unions.
- Individual co-ops.

Co-Opera may be built out as its own, stand-alone site, or as one component of the Why Co-op? site.

MARKETING

The target market for the Co-Opera website is established cooperatives looking to lend funds as an investment or established cooperatives requiring financing for various projects. The primary tactic is leveraging the wide distribution network of cooperatives, their members, and organizations that work with co-ops, such as the NCBA, Canadian Co-operative Associations (CCA), National Co-operative Bank (NCB), North American Students of Cooperation (NASCO), U.S. Federation of Worker Cooperatives, Credit Union National Association (CUNA), and Filene.

OPERATIONAL AND OTHER CONSIDERATIONS

There are many hurdles to clear before bringing Co-Opera to fruition, including development costs, legal issues, competition, and mitigation of lending risk.

EVOLUTION OF A STUDENT HOUSING PROBLEM

ICC Austin's general administrator, Brian Donovan, found that traditional financial institutions were hesitant to loan to cooperatives. He also had a hunch that this problem was systemic for all cooperatives. When he started collaborating with a Filene i³ team, they had a conversation about timeshares that led to discussing state voucher programs for college tuition. They also reviewed a Canadian option called a Registered Education Savings Plan.²

Considering programs that allowed people to save now for tomorrow's education expenses then begat the question: What if ICC Austin sold vouchers at today's prices for future rentals? Answer: They would get an immediate infusion of cash and renters would get protection for anticipated price increases due to inflation. Seemed like a win-win. So why didn't the i³ team go forward with developing this idea? They discovered that the costs of co-op housing actually got cheaper over time and did not increase with inflation, thereby removing any incentive for future renters to pre-pay. With this source of funding shown not to be viable, the team began considering other options, which culminated in the proposed Co-Opera concept.

² Canada Revenue Agency, Registered Education Savings Plans (RESPs), <http://www.cra-arc.gc.ca/tx/ndvdl/tpcs/resp-reee/menu-eng.html>.

PROOF OF CONCEPT

- There are several peer-to-peer lending sites, most notably Kiva and Prosper, that were reviewed by the i³ team as models for a platform specific to co-ops and credit unions.
- Many credit unions are familiar with business lending credit union service organizations (CUSOs). These entities could prove to be valuable liaisons in the lending process as providers of expertise in loan origination, underwriting, documenting, and servicing loans generated through the program.
- Both the NCBA and CCA have expressed support of the concept.

PARTICIPATING CO-OP BENEFITS

- Borrowers procure financing from other cooperatives that understand their unique business model and issues.
- Lenders can invest additional capital to receive a higher rate than they might earn from other investments.
- Mechanism put in place to facilitate the application process, analysis, and servicing of loans.

CREDIT UNION BENEFITS

- Grow business loan portfolio.
- Fee income.
- Prospective new relationships with other cooperatives and the members.
- Serve consumer needs via partnerships with other cooperatives.

GETTING STARTED

- 1** Further development of the website is predicated on securing the support of a national cooperative association that would fund and oversee the development, as well as help to promote it to the various cooperative sectors.
- 2** Interested credit unions and other parties are encouraged to contact Filene to get involved.

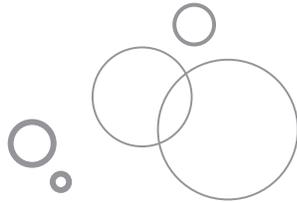
» Visit <http://filene.org/home/innovation> for more information.



CO-OPERA

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