FROM SALISH SEA COOPERATIVE FINANCE

GUIDE TO COOPERATIVE COMMUNITY LENDING

HOW TO COOPERATIVELY TACKLE THE STUDENT DEBT CRISIS IN YOUR COMMUNITY

RESETTING THE TERMS OF DEBT AND OWNERSHIP SO **EVERYBODY WINS**

A GUIDE TO COOPERATIVELY TACKLE THE STUDENT DEBT CRISIS IN YOUR COMMUNITY

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Published 2022 by Salish Sea Cooperative Finance
salishseafinance.coop

With gratitude to the New Economy Coalition for their support of this guidebook.

Salish Sea
Cooperative Finance

INTRODUCTION

YOU ARE NOT A LOAN.
YOU ARE NOT ALONE.

\- STRIKE DEBT

BEDTIME STORIES FOR RADICALS: **THE BIRTH OF A DEBT COOPERATIVE**

In the summer of 2013 a small group of baby boomers and millennials met at a Pacific Northwest social changemaker conference called the Hollyhock Summer Gathering. They began a dialogue that got off to a bumpy start. It went roughly like this:

Baby Boomers: Why aren't young people doing more to stop climate change, fight big banks, and fix all these broken systems? When I was your age [insert boomersplaining here].

Millennials: We're trying. But we're also drowning in student debt!

Baby Boomers: Wait, what?

Most of the college-educated, majority-white baby boomers in the room came out of college with little or no student debt. Many had worked during the summer and taken part-time jobs during the school year, and were able to pay for college out of pocket. Some had their college paid for by the G.I. Bill. Some had never attended college, but were still able to get jobs that paid well, ensured access to home loans, and offered job training or other forms of professional development.

These older people understood that the undergraduate degree had become the "new high school diploma," required to access decent paying jobs and career paths. But they were surprised to learn that the millennial activists in the room owed tens of thousands of dollars in student debt, with interest rates that ranged from 5% to 13%. These activists worked multiple jobs and were still looking at 10- to 20-year payback periods. They felt stressed and anxious about their finances. They talked about friends that took jobs in corporate law, when they had initially wanted to pursue environmental law.

The conversation bloomed to larger topics of financial literacy and confusion, the feelings of isolation and shame that came when falling behind on payments or defaulting, and how hard it is to ask for help. Many millennials in the room aired their anger and frustration at the baby boomer generation's lack of understanding and support. For most of them, it was the first time they'd spoken of these feelings.

The central insight of that conversation was that the burden of student debt is one that must be shared intergenerationally if we hope to tackle the problem of rampant student debt. This is because of the enormous concentration of wealth between generations. Baby Boomers and the Silent Generation (born 1928-1945) held 70% of US wealth in 2020 according to the Federal Reserve. Millennials held just 5%. For comparison, CNBC reported Baby Boomers held 21% of the country's wealth when they were of a similar age range as today's Millennials.

Broader insights appeared as well. "What would it look like to heal our relationship to money?" some asked. For so many, debt is a psychological weight that shifts the imagination from thoughts of possibility and empowerment to thoughts of crisis and necessity. It has been shown to cause high levels of stress, anxiety, and shame. It blocks young adults from participating fully in creating the structural change our world needs. What would happen if we found a way to share the burden of debt across our local community? What if we pooled our resources, instead of concentrating them among the already wealthy?

What if we could reset the terms of debt and ownership so everybody won?

OWNERSHIP =
EMPOWERMENT

OWNERSHIP = EMPOWERMENT

This cross-generational dialogue spurred a volunteer working group that began meeting regularly, over beer and pizza, house potlucks and enchiladas, to envision what that might look like. We eventually formed Salish Sea Cooperative Finance (SSCoFi), a Washington State cooperative, to empower individuals toward greater financial literacy, and to refinance and relocalize student debt, so that the burden could be shared across the generations.

From its beginning in 2013, Salish Sea Cooperative Finance was meant to be different. While most groups that specialize in debt refinancing treat their customers primarily as debtors, ours would make them member-owners of the business. We raise money from local investors and community members, and then we lend that money to our borrowers. They use our loans to pay off their existing student loans, and then they pay us a new, lower payment every month. Most importantly, our borrowers and investors are shared owners of our organization, and they have the chance to meet and get to know each other. Further, we offer our borrowers mentorship and financial education to help them improve their personal finances and prosper in their careers.
Over the past three years, we've lent out almost $100,000 across 15 loans and built a wide-ranging community of members. We have set up mentor relationships and held dozens of events to help educate our neighbors and create a space for them to learn financial literacy and share their burdens.

While we are excited by the dollars we are keeping local and the connections we are making, the most important part of our work has been its impact on the lives of our members.

**EVERYBODY KNOWS THE FIGHT WAS FIXED
THE POOR STAY POOR, THE RICH GET RICH
THAT'S HOW IT GOES EVERYBODY KNOWS"**
— LEONARD COHEN

One of our earliest member-borrowers was a person named Derek, who had found himself and his partner trapped by the steadily increasing monthly payments from their student loans. At the time, Derek was working in communications for a local nonprofit, and the couple was struggling financially. They had been raising two foster children and receiving payments from the government for doing so. But when they adopted one of the children and the other was returned by the court to the custody of her birth mother, the payments stopped. Additionally, the home they had purchased at a discount turned out to need extensive (and costly) roof repairs. And, as all those bills piled up, their student loan bills kept coming — and growing by $25 a month.

In 2016, we offered Derek a partial refinancing of his loan, reducing his monthly payments by $97 and stopping the escalation. This had two impacts. First, the decrease in monthly payments and mentorship on financial planning helped reduce the couple's expenses and made it possible for them to either pay off or refinance the remainder of their student debt. Second and more importantly, Derek and his partner were freed from the psychological burden of the predatory, ratcheting payments swamping their income and driving them deeper into debt. As Derek put it, "being in debt in that way [gave us] this looming feeling that someone or something could come and get us…[borrowing] with people you can look in the eye is incredibly powerful."

Many of our borrowers shared stories similar to Derek's. They spoke about how the combination of financial and community support helped them find a path toward economic liberation.

"BEING IN DEBT IN THAT WAY [GAVE US] THIS LOOMING FEELING THAT SOMEONE OR SOMETHING COULD COME AND GET US…[BORROWING] WITH PEOPLE YOU CAN LOOK IN THE EYE IS INCREDIBLY POWERFUL."

We chose to focus on the crisis of student debt, and the details of this guidebook reflect that. However, community cooperative lending has been and can be used to tackle many different issues. We hope that any community facing a shared financial burden can find our model useful.

WE WANT TO SHARE THE DETAILS OF OUR WORK IN THE HOPE THAT OTHERS CAN USE IT AS A BLUEPRINT TO SET UP THEIR OWN COOPERATIVES IN THEIR COMMUNITIES.

This open source manual explores the creation of our mission-oriented community lending cooperative and offers an account of the unique organizing and financial model that Salish Sea Cooperative Finance has designed and implemented over the last five years.

We're proud to be part of a long tradition of communities pooling resources in order to meet individual and collective needs, from libraries to communal agriculture (where farmers pool tools and land in order to bolster collective prosperity) to lending circles and local credit unions. African American communities in particular have a strong and vibrant tradition of economic cooperation, ranging from the first mutual aid societies in the 18th century to W.E.B. DuBois' Negro Cooperative Guild to the multi-state Federation of Southern Cooperatives today helping farmers and local cooperatives thrive. We hope that our work can join that tradition, and people and communities around the country and the world can take what we've built, adapt it for their own situation, and use it to further the cause of liberation from debt.

We've tried to break the guide into step by step chapters so you can take in your own community to address the student debt crisis.

WHAT IS THIS GUIDEBOOK FOR?

THIS GUIDEBOOK IS A *LIVING DOCUMENT*, INTENDED AS A SOURCE OF INSPIRATION FOR COMMUNITY GROUPS WHO WANT TO:

TAKE MONEY OUT OF WALL STREET AND BIG BANKS, AND REINVEST IT LOCALLY, THEREBY CREATING A MEANS OF FINANCIAL EMPOWERMENT AT THE LOCAL LEVEL.

KEEP MORE MONEY IN LOCAL COMMUNITIES, ALLOWING US TO REALIGN OUR FINANCES WITH PEOPLE AND PROJECTS COMMITTED TO SUPPORTING A THRIVING PLANET FULL OF LIFE, RATHER THAN WITH INSTITUTIONS OF EXTRACTION AND EXPLOITATION.

CATALYZE THE COOPERATIVE ECONOMY AS A REAL ALTERNATIVE TO THE EXTRACTIVE CAPITALIST ECONOMY. WE BELIEVE THAT DEMOCRACY IN THE WORKPLACE AND IN FINANCE IS ESSENTIAL TO CREATING AN ECONOMY THAT WORKS FOR ALL.

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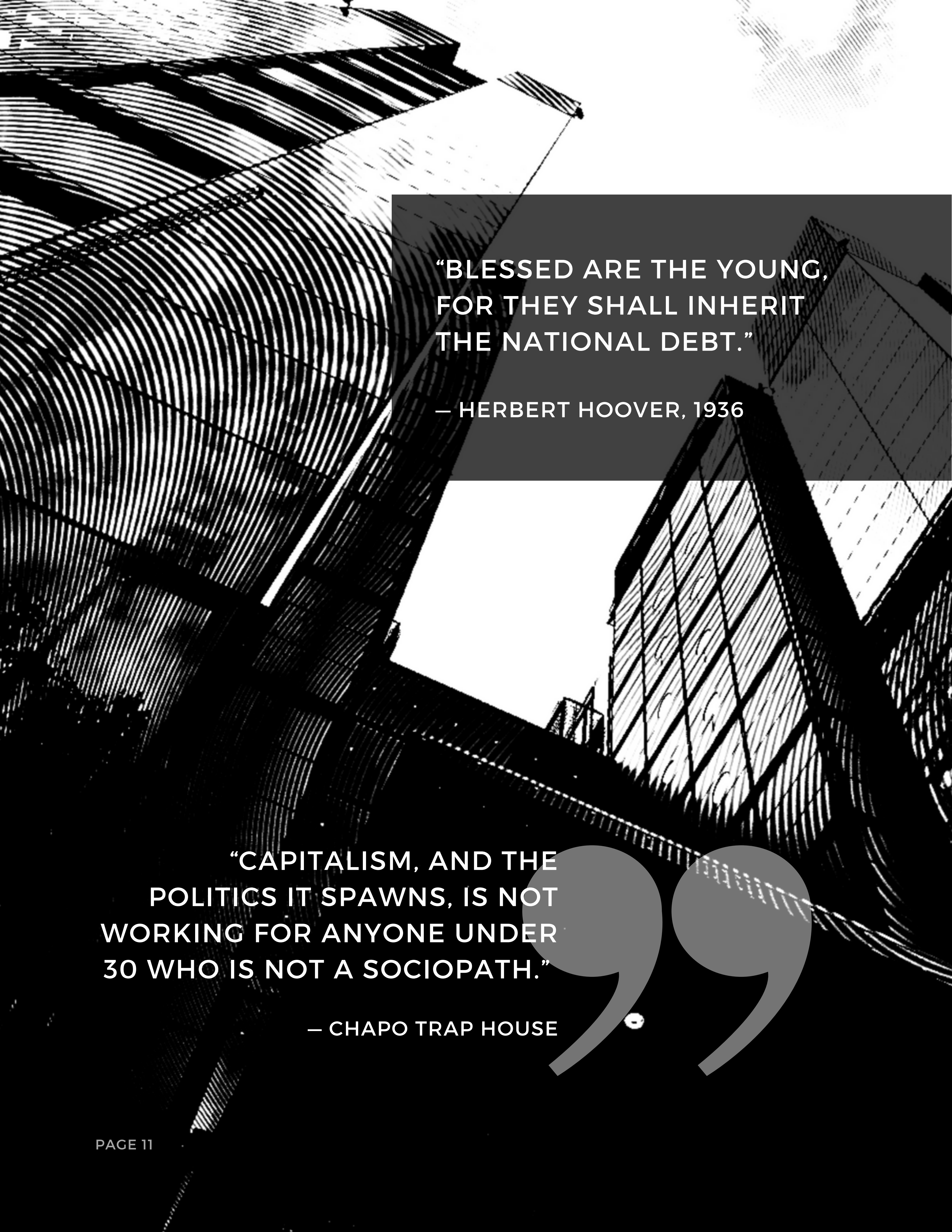


“BLESSED ARE THE YOUNG, FOR THEY SHALL INHERIT THE NATIONAL DEBT.”

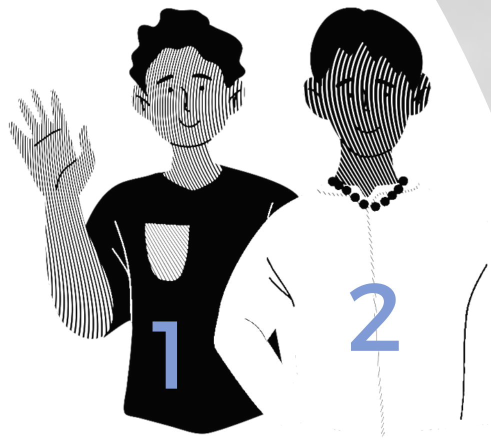
— HERBERT HOOVER, 1936

“CAPITALISM, AND THE POLITICS IT SPAWNS, IS NOT WORKING FOR ANYONE UNDER 30 WHO IS NOT A SOCIOPATH.”

— CHAPO TRAP HOUSE

STEP 1: GET THE FACTS ABOUT STUDENT DEBT

Imagine two men. They both come from similar middle-class socioeconomic backgrounds and grew up in the same part of the country. Both attend the same college, where they achieve similar academic success. And they each have a similar amount of student debt—$30,000.



Now imagine that upon graduation for one of these young men, their student loan debt magically disappears. Poof. After graduation each pursues respective careers, but their paths diverge. In just a few short years, the one without student loans is financially stable, looking to buy a home and start a business. The other, still deep in debt, delays pursuing his dreams to become a doctor to take a lower-paying job as he tries to get his undergrad loans under control.

This scenario played out for real when Black billionaire Robert F. Smith chose to forgive all student debt of graduates of The Morehouse Class of 2019, a historically black men's college in Atlanta. For a problem as large in the United States as student debt, it can be hard to grasp the full impacts of a problem as large as student debt because they are so pervasive, but the cancelling of $34 million dollars of the class of 2019 provided a unique example of how much of a difference student loan forgiveness can have, from the class of 2018 which did not receive support.

"If I want to buy a house, I can buy a house. If I want to take out a loan to start a business, I can do that," one of the students whose loans were forgiven told Bloomberg Law. "It's a huge burden that I just don't have to worry about." Another student interviewed by NPR's Marketplace pointed out the impacts extend beyond students to their families, many of who have taken on debt to help pay their child's education. Talking about his younger siblings, "Now my brothers can go to college … They get scholarships…they could do anything they want".

It’s no secret that education has become more expensive and privatized while also being more requisite for career advancement—while wages have stagnated. **In this section of the guidebook, we will explore the conditions under which students and families have been forced to take out more and larger loans to cover the cost of their education.** This creates individual and collective financial burdens for society—as well taking a toll on our culture’s ability to respond to social inequality and have the capacity to take on the biggest problems we face today with creativity and fortitude.

Understand the Scale of the Student Debt Burden

Of all students graduating with a bachelor’s degree in 2019, 62% had student debt and graduates of four-year colleges averaged $28,950 in student loans at graduation. A graduate who owes that amount faces a monthly payment of $312 on a standard, 10-year repayment plan. For all but the few graduates making their way into high-wage industries like tech or finance, this debt burden is a significant drain, rivaling car payments or rent. Just like the stories of the Morehouse Class of 2019, research shows that the burden of student debt has a variety of long-reaching impacts on graduates:

- Graduates who owe **$30,000** or more are **11%** less likely to start a business.
- **46%** of student debtors have deferred buying a house because of loan payments.
- **10%** of student debtors couldn’t buy a car due to their loans and a third said they had to reduce holiday shopping.

It is important to note that this burden often extends across generations. Half of individuals with student debt are over 30 and a quarter are over 45, according to The Institute of Student Loan Advisors. Student debt also disproportionately impacts people of color:

African American B.A. graduates default at five times the rate of white graduates. Defaulting on debt can ruin an individual's credit score, leading to higher future credit card rates and difficulty in getting jobs, furthering inequality. The Brookings Institute estimated that nearly 40% of borrowers may default by 2023 based on rates from loans made in the late 1990s.

Student debt affects millennials and younger generations more severely than their older peers. In 2020, over 42 million graduates in the U.S. owed student debt, with about 90% holding federal loans and the rest holding private ones. Those borrowers owed a total of $1.55 trillion of student debt at the end of 2020 (yes, trillion).

That is more than all credit card debt ($0.82 trillion) or auto loans ($1.37 trillion) for the same period.

Considering total student debt in the U.S. was only $340 billion in 2001, the jump up to $1.5 trillion represents a 355% increase. With an average interest rate just under 6%, that means graduates owed almost $93 billion in interest payments alone.

Student Debt Is a Gatekeeper for Social Change

Having an entire generation shackled with trillions of dollars of student debt means that millions of young adults' energy and liquid capital is sunk into repaying high-interest loans. On the individual level, this burden curtails efforts to explore personal life goals that are not primarily about making money. On the systemic level, it pushes young generations into profit-seeking and away from public-benefit professions such as social work, education, poverty alleviation, and environmental law.

Furthermore, the interest paid on these loans goes to prop up megabanking institutions such as JP Morgan Chase, Wells Fargo, Citibank, and Bank of America. These banks finance both the fossil fuel industry and institutions that perpetuate systemic inequality, such as the private prison system.

As we face the grave global challenges of climate change and systemic economic and racial inequality, we need to create resilient communities accountable to the needs of the most vulnerable. We can no longer accept the status quo that says graduates must spend years or decades of their lives paying off their debts rather than building the sustainable, equitable, resilient communities that we so desperately need.

STUDENT DEBT IS A GATEKEEPER FOR SOCIAL CHANGE

IF WE WANT A BELOVED COMMUNITY, WE MUST STAND FOR JUSTICE, HAVE RECOGNITION FOR DIFFERENCE WITHOUT ATTACHING DIFFERENCE TO PRIVILEGE.

— BELL HOOKS

STEP 2: IMAGINE THE WORLD YOU WANT

At its core, Salish Sea Cooperative Finance is a community experiment in liberatory structures. Our work begins by asking the question:

In a world without extractive student loans, what would be possible?

Maybe some of us would show up for city council meetings to fight for black lives. Others would garden more. Perhaps we would all have more spare income to support our neighbors through crises like the COVID pandemic. Would we have more small businesses owned by millennials? Spend more time with our kids? Could more of our lawyers afford to go into environmental law or social justice?

In 2020, in the midst of the global pandemic, we started interviewing several organizers of color who held student loans. “How would it feel,” we asked, “to have your loans forgiven?”

"It would feel like freedom."

"I've never been enslaved in the same way that my ancestors were, but having my loan forgiven would feel like the last step in a 400-year battle toward freedom."

This organizer we interviewed works with Black, Indigenous, and People of Color (BIPOC) youth in Seattle, helping them process grief and trauma through art. She expressed a sense of joyful energy at the prospect of having more resources to be able to show up for her community.

"The emotional toll, the stress, that having a six-figure student loan balance takes on me—it takes away from the energy that I could be putting into my projects," she told us.

We envision a world where all graduates will have the freedom to pursue their goals, contribute to their community, and impact the world free of the crushing burden of excessive student debt. Early on, our community agreed that we wanted to achieve that goal in a way that reflected deeper values and helped show the way forward towards a sustainable, just, and democratic world.

In this section "STEP 2: Imagine the World We Want," **we are going to lay out our vision for a better future, grounded in five critical concepts to our community:**

1. The New Economy
2. Bioregional Organizing
3. Cooperativism
4. Racial Justice
5. Mutual Aid

THE NEW ECONOMY

Connected, Fair, and Sustainable

We live in an era of detachment. Even before the COVID-19 pandemic, the trend of "bowling alone," of increasing alienation and separation between neighbors, community members, and even individuals and the natural world was increasingly apparent. As our capitalist economy continues churning for unending growth, people detach—from each other, from downstream effects of their decisions, from the original purpose of an enterprise. When this lack of human connection extends to financial institutions and the people they loan to, exploitation results. We believe we need financial institutions that operate at a human scale and serve to reconnect people to their communities and build our shared capacities. This sort of reclaiming of institutions is what we and changemakers around the world are coming to call the "New Economy."

As the New Economy Coalition, a nonprofit based in Massachusetts, puts it, the New Economy is about "[imagining and creating] a future where capital (wealth and the means of creating it) is a tool of the people, not the other way around. What we need is a new system—a new economy—that meets human needs, enhances the quality of life, and allows us to live in balance with nature."

This vision has been critical to Salish Sea Cooperative Finance. We wanted to ensure that all members of the community had a chance to participate in our cooperative with an equal voice — regardless of whether they were borrowers or investors.

For us, embracing this principle meant letting go of many of the unsustainable, dehumanizing drives within both traditional for-profit and non-profit models of financial service. We wanted to move away from "impact at scale" and toward a connection with every borrower, away from optimizing for metrics and towards understanding the stories and needs of those around us, and away from reducing the problem to pieces and towards seeing the whole picture.

FOR US, EMBRACING THE NEW ECONOMY AS A PRINCIPLE IS ABOUT BUILDING AN ORGANIZATION DEDICATED TO LOCAL, SUSTAINABLE, PEOPLE-DRIVEN IMPACT.

BIOREGIONAL ORGANIZING

Local and Livable

Related to our principle of New Economy, our work was shaped by place. We decided on the name "Salish Sea Cooperative Finance" in order to center the work we are doing in the place where we live. Seattle sits on the Salish Sea, which stretches from Olympia in the south of Puget Sound past Seattle and Vancouver to the Campbell River in the north. It has been the home of indigenous Salish people for thousands of years, and is one of the most biologically diverse inland seas in the world. The Salish Sea is a defining natural characteristic of the region in which we live and work.

WHAT IS A BIOREGION?

"A bioregion is defined in terms of the unique overall pattern of natural characteristics that are found in a specific place. The main features are generally obvious throughout a continuous geographic terrain and include a particular climate, local aspects of seasons, landforms, watersheds, soils, and native plants and animals. People are also counted as an integral aspect of a place's life, as can be seen in the ecologically adaptive cultures of early inhabitants, and in the activities of present day reinhabitants who attempt to harmonize in a sustainable way with the place where they live."

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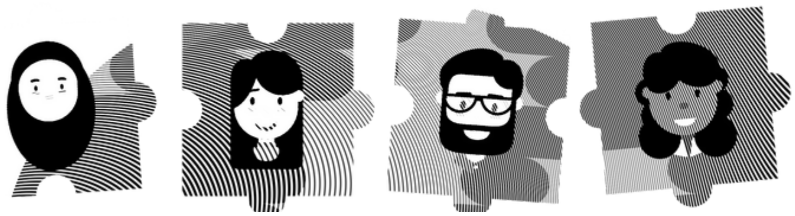
For us, centering localism and the larger concept of bioregionalism meant choosing to focus on sustainable growth in our existing communities rather than expanding outward. Business-as-usual debt models are fundamentally extractive operations, siphoning resources out of individuals and communities to benefit multinational banking institutions or absentee shareholders.

We upend that model by confining the geography that we serve and focusing on relocalizing and rehumanizing debt. We wanted the organization, processes, and system we built to be tied to and aligned with the needs of our community and its environment. Rather than grow endlessly, we want to build the right solution for our greater regional community, rather than a one-size-fits-all model pushed down from the top. What the Salish Sea community needs may be different than the Sonoran Desert, the Gulf Coast, or Appalachian Highlands.



COOPERATIVISM

Building It Together, Owning It Together

In contrast to the concentrated power of traditional extractive finance, we wanted our organization to reflect the principles of equity and democracy. This naturally led us to the cooperative model of "one member, one vote."

The International Cooperative Alliance defines a cooperative as an "autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise." Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. Cooperatives bring people together in a democratic and equal way, and, critically for us, members share equal voting rights regardless of the amount of capital they put into the enterprise.

We were excited for Salish Sea Cooperative Finance to be part of a broader cooperative economy. As of 2014, the year of the last Global Cooperative Census, over 1 billion people were members or clients of at least one cooperative and those cooperatives generated just under $3 trillion in annual revenue from $20 trillion in assets. If they were a country, cooperatives would be the fifth largest economy in the world. Seattle's own co-ops range from giant ones like REI, founded in 1935 to make outdoor gear more accessible, to tiny ones like the Patty Pan Cooperative, which serves up tasty quesadillas at farmers markets. With such a rich and healthy local tradition, we felt that this was a model that resonated with our community and our ideals.

RACIAL JUSTICE AND MUTUAL AID

Solidarity Not Charity

Racial oppression reaches deeply into the structure of our society. Student debt is no exception. From the beginning, we wanted SSCoFi to create new opportunities for racial justice through mutual aid. For generations, unequal access to credit has been used as a tool to perpetuate the enormous wealth dominance of white Americans. Redlining is the most common cited example of this trend, referring to how mid-twentieth century banks all over the U.S. would use federal maps that designated minority neighborhoods as high risk (outlining them in red on maps). They would then make it extremely costly or impossible for residents in those neighborhoods to get mortgages and build financial ownership in their communities.

The practice was outlawed in the 1970s, but a 2020 study by the Federal Reserve found that the impacts of this policy persisted for generations, reducing homeownership rates and credit scores decades later and substantially contributing to the racial wealth gap in the United States. Racial discrimination in lending persists today, with borrowers of color paying more for auto loans, Black applicants being rejected for mortgages 80% more often than white borrowers, and being pursued for debt collection at twice the rate as white borrowers with similar late payments. These racial inequalities appeared again during the COVID-19 pandemic, with businesses in predominantly white areas receiving critical Paycheck Protection Program loans at 1.5 to two times the rate of those in mainly Black and Latinx neighborhoods.

Given the incredible weight of historical discrimination in lending and debt, it was critical to us that SSCoFi provide a transitional model for racially just lending.

To do that, we wanted our model to embody mutual aid, which is about taking collective, cooperative action to support our communities. The principle of mutual aid is sometimes described with the phrase “solidarity, not charity”, as it is based in reciprocity and shared resources instead of the uneven, hierarchical power imbalance of external charity deigning to support less fortunate communities.

Unlike charity, which glorifies the donor for their altruism, the principles of mutual aid state that sharing resources is not purely altruistic but critical to everyone’s survival and success due to our fundamental interdependence and equality. We are proud to be part of the long history of using mutual aid to build financial and racial equity. This tradition dates all the way back to the first formal mutual aid society in the United States, the Free African Society created by free Blacks in 1787, which required members to contribute monthly so funds could be “...[handed] forth to the needy of this Society, if any should require.”

FINANCIAL EMPOWERMENT AS A WAY OF BEING

Keeping Everyone in the Game

Underscoring many of these ideas is a larger question: ***Beyond the act of refinancing a loan, how do we encourage financial empowerment as a way of being?***

Dominant financial institutions seem to make financial decisions based on inscrutable rules they have created dictating how the world works, how money moves and who gets to choose. Salish Sea Cooperative Finance has been working to unwind the “best practices” of the how-to-optimize-profit game on overdrive in our individualistic culture.

Breaking out of the dominating scarcity mindset is a major part of this. Now the question becomes: How can we steward our resources, individually and collectively, in ways that are inspiring and creative, and that create opportunities for local ownership?

One of our founding members, Derek, had a breakthrough moment thinking about this while playing Monopoly. As the game went along, one player began to accumulate high-value properties like Park Place. Other players began landing on the properties, and the inevitable process of wealth concentration began. When someone was about to go bankrupt, another player in the spirit of generosity gave them some of their money, no strings attached. A few turns later, that player was in the same boat. Now, two other players lent them their cash to keep them in the game. They discovered that they could play the game, keeping all the players on the board, by everyone handing over money to the person whose turn it was.

Derek was so excited that he shared this story at our next meeting. Over the years, we have often talked about this as a parable: What is possible when you start to break the rules of a game that is meant to have only one winner? We are in an economy that acts like a game, with rules that concentrate wealth and produce winners and losers. To break this losing cycle, we have to break the rules of conventions and imagine with each financial decision, at an individual or organizational level: *Are we making choices that will keep everyone in the game?*

ARE WE MAKING CHOICES THAT WILL KEEP EVERYONE IN THE GAME?

STEP 3: BUILD THE HOUSE

IF YOU WANT A REVOLUTION
YOU HAVE TO PLAN A BETTER PARTY

- ANONYMOUS

When we put the check in the mail to refinance our first loan, four core volunteers met for coffee and eggs at a greasy spoon at eight in the morning to prepare the paperwork. We went to the bank, got the cashier's check, printed the letter, and put it in the mail. Putting that first check in the mailbox was elating. So elating in fact that residents of downtown Seattle looked concerned as four grown adults let out shouts of joy outside a perfectly average post office after doing a seemingly simple task. But the task was anything but simple — and we had done it together.

Like an untold number of great ideas throughout human history, the nuts and bolts of Salish Sea Cooperative Finance were hammered out over nachos and beer.

It took a small group of committed individuals who felt called to consistently show up after work for bi-weekly evening meetings at various dive bars and coffee shops around Seattle for "volunteer dance parties" to sort through the questions of how to run a co-op. Sometimes there was actual dancing.

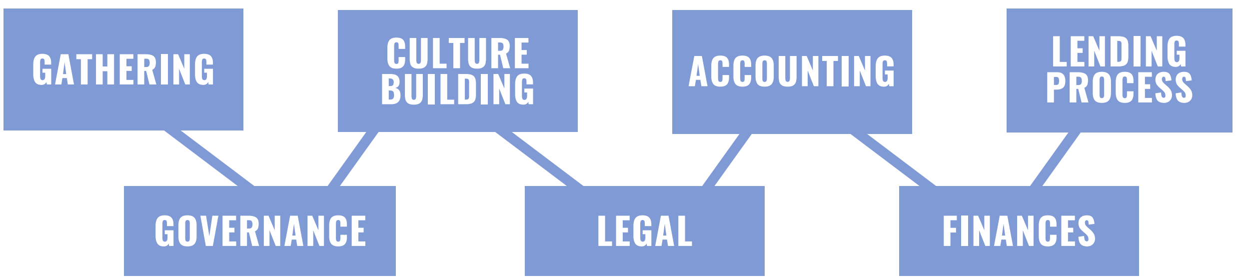
How would the group create shares and equity? What would the application process be like for membership and refinancing? How would we prioritize loan applications? Pods of volunteers worked out all of these questions collaboratively, with a core team that ranged from six to ten people. Friendships formed and deepened. We rarely did anything "lone wolf" — generally pairs or trios of people would team up to get something done. If it had been just about the loans — just about the money — we would have failed. The purpose of the co-op was to re-center relationships. We also showed up for each other's birthdays and weddings and baby showers. We worked together and celebrated together.

SO, HOW DID WE DO "THE THING"?

This next section**, "Step 3: Build the House,"** moves from the "Why" to the "How." Here we will share the details of how you can build a debt cooperative, from defining the community to closing the first loan. We balance discussions of our principles with the practical considerations we faced when creating this model for the first time.

Our goal is radical honesty and transparency. On any number of questions, we had long debates about the best way to proceed. We want to share that thinking with you in the hopes that our "paths not taken" may be just as useful as our final decisions. Our success to date gives us confidence in our choices, but any organization developing its own community model will need to take into account its own local context, needs, resources, and capacity.

"Step 3: Build the House" has seven sections:



Each section has a matching appendix with relevant documents or forms we created and are offering for other community organizations to use in their own operations.

1. GATHERING

The process of starting a co-op can be iterative, but for simplicity, we've organized it into five parts:

- **Define your community**
- **Activate your core volunteers**
- **Create space for sharing stories**
- **Identify your community's need**
- **Define your community's privilege and position**

We often found ourselves often going back a step (or three!) as we continued to explore who was in our community, their needs, and how could we all come together to help each other.

Hot tip! You will likely have a different community than ours. You may want to narrow the lens, or widen it. You may want to focus on a neighborhood or city, a support group, or other constituency.

DEFINE YOUR COMMUNITY

Who is the community you're organizing with? Who do you intend to serve, and what do they need? These are the first questions to be addressed before creating a co-op like Salish Sea Cooperative Finance.

We began with a loose team of core people who self-selected because they had deeply held personal experience and trauma related to debt or finance. Our community could be described as including members of the following broad groups:

- People living in the Salish Sea region, from Seattle to Whidbey Island to Cortez Island.
- Millennials (people 23 to 38) whose potential to be powerful actors for social change and community well-being are being stymied by runaway student debt.
- Baby Boomers or others with financial capital who are looking for safe, local investment opportunities.

CREATE SPACE FOR SHARING STORIES

Our key group of organizers held a series of intergenerational conversations across the Salish Sea to collect stories and testimonies about people's experiences with student debt. These stories came from individuals diverse in age and education level, as well as in the severity with which student debt had affected their lives.

One young woman was a musician and climate activist, who took an endless stream of freelance jobs in order to try and balance her passions with her need to pay bills. She struggled with anxiety brought on by online loan-payment portals and anonymous call centers that charged extra fees and dropped her credit score.

Still, these were some of the milder stories. Others had taken on high-interest debt, but never completed their degree. This left them with all the debt and none of the long-term benefits a college degree provides. This is a particularly vicious problem for students of color or students first in their family to go to college.

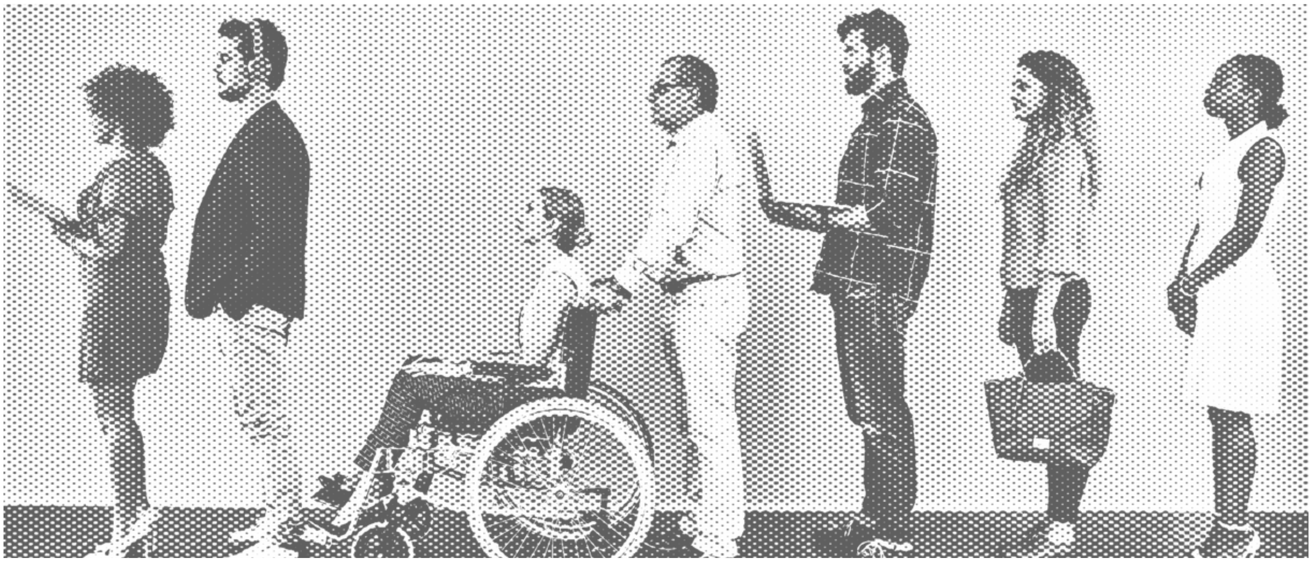
People lived in stress and anxiety over calls from lenders, but rarely spoke about their debt to family and friends. Debt provoked shame. It was easier to be in denial, or to default. Many hadn't even tried to refinance or deal with growing interest rates on debts that had gone "delinquent" because of how inaccessible help seemed, how anonymous they felt. They didn't even know where to begin.

IDENTIFY YOUR COMMUNITY NEED

Hearing these stories told out loud was powerful and reaffirmed the key organizers' belief that a collective solution was needed to address this debt crisis. From these testimonies, three primary needs emerged:

- The need to alleviate the financial and psychological burden of high-interest student debt among millennials and Generation Xers in our community.
- The need for values-aligned investment opportunities for individuals and especially baby boomers who own capital.
- The need for more financial empowerment training, education, and mentorship on issues that connect personal financial empowerment to collective systemic change.

These three needs became the starting place for how we have addressed many questions for how to organize, operate, and run Salish Sea Cooperative Finance.



DEFINE YOUR COMMUNITY'S PRIVILEGE (WITHIN THE LARGER STORY OF STUDENT DEBT)

Student debt is an issue that, like most forms of debt, disproportionally impacts individuals of color. In 2018, 78% of Black students borrowed federal student loans for school, compared to only 57% of white students. Half of these Black students defaulted at some point during their student loan repayment process, compared to 22% of white students. Recognizing that generations of white supremacy and racial oppression against people of color is the underlying reason for this disparity must inform all work to address economic injustice.

Salish Sea Cooperative Finance has worked to educate our membership about this history and to take it into account when deciding which loans we refinance, and in what order.

We chose to tackle student debt (as opposed to medical debt, for example) because it is a widespread issue (after mortgages, it is the second-largest category of debt owned by American consumers) and one that all of the initial project organizers had direct ties to. It's also a form of debt that felt particularly generationally defined, and that offered substantial long-term systemic benefits if it could be even partially tackled.

ACTIVATE YOUR CORE VOLUNTEERS

Before digging into our organizational structure, there's one more key facet that needs to be addressed—the actual act of building community. Do you have a group of people in your region interested in student debt liberation (or debt liberation in general)? If yes, great!

But staying committed, organized, and building your collective capacity to get a new organization off the ground takes time. It requires relationships built on trust, where people know each other well enough to know how to work with each other's idiosyncrasies.

It also requires building a shared analysis of the problems of our unjust economic system, and a capacity to quickly make shared decisions and work out conflicts.

In some ways, you could compare it to other models of open-source labor organizing. It takes collective energy, but it also takes a highly committed core team to take ownership of the project. Look at Wikipedia—77% of articles are written by only 1% of editors. As a cooperative, everyone in the organization has a say, but ultimately you need a core team of drivers to make it happen.

Salish Sea Cooperative Finance was able to build this trust and collaboration within our core organizing team through biweekly evening meetings — usually over beer and tater tots at various dive bars, kitchen tables, public libraries, and public meeting spaces across the greater Seattle region.

It took us almost two years to refinance our first student loan. We hope this guidebook will enable another group to reach that point in less time — but it still takes a dedicated team of people willing to learn about debt, bookkeeping, and cooperative governance, who are willing to meet, communicate with members, do outreach, and build a healthy organization. So far, SSCoFi has been run entirely on volunteer labor. It's taken us getting creative, being honest about what we are able to give, and where we need to build more skills — and showing up for each other emotionally and interpersonally in ways seemingly unrelated to refinancing our debt. In short, friendship.

What we've created is a more decentralized, relationship-driven mode of attacking the student debt crisis. It's one that the current mega-corporate model doesn't permit — one that offers opportunities for members to learn from each other and support each other in creating a new relationship to their debt and to each other.

2. GOVERNANCE

In this section we break down the three major components of the structural and legal framework of running a co-op. These arenas of thinking about governance all run in tandem, and are all necessary to build a healthy organization that can fulfill its mission.

The governance decisions outlined here assume that you are using a cooperative structure, as we did, and not a corporate or nonprofit one.

One of the earliest decisions we had to make was whether to organize ourselves as a nonprofit or a cooperative in order to refinance student loans. A 501(c)3 could have offered us certain benefits, such as access to more grant opportunities. We choose a cooperative structure instead because we wanted to share profits with our members — and we also wanted to have member engagement at the level of voting on different resolutions, changes to the bylaws, etc.
We formally incorporated as a cooperative with the State of Washington in 2014 — but choose to file as a C-Corp with the federal government because it was simpler for tax purposes (more on that topic later!).

In this section we will outline the basics behind **bylaws,** some key takeaways on **co-op management,** and also some of our findings on **cooperative culture building**.

But first, a framing question:

HOW MUCH STRUCTURE IS TOO MUCH?

You may be asking how much formalized structure is needed to be successful. Do you need to file taxes? Yes. Do we need to be incorporated? Probably. These are good questions to ask, and the answers will vary with your group's location and goals.

Salish Sea Cooperative Finance was created with the collective understanding that the existing system for managing student debt is unjust and inequitable. The more structure that we create in our new organization, the greater the risk that we recreate that system. However, we know we need enough formalized structure to ensure accountability and opportunity for new leadership to rise in the organization, as founding members leave.

We've also tried to be wary of creating too much structure, less for ideological reasons, but for practical ones. We are working iteratively. When we have an additional capacity, we can have additional structure. For example, we started with a joint bank account accessible to individuals in our co-op. Later, when we actually started refinancing loans and taking in more capital, we moved to a business account. Similarly, we started with a basic email list for membership updates, before adopting Mailchimp and Salesforce for tracking member engagement.

We're big proponents of the structure that your group needs, rather than so-called "best practices" of what a business "should" be doing. In our effort to be part of the just transition, we need to think about values first before thinking about the structure that's needed.

BY-LAWS: WHAT THEY ARE (AND WHY YOU NEED THEM)

Bylaws are the written framework of how your organization works. They are required to file to be recognized by the state and federal government for tax reasons. But they are also important because they define and codify the high-level structures of how the organization functions, including how often membership meetings happen, the composition of the board, how money is returned to investor-members, and even the expected length of the organization's lifetime.

See our full bylaws in the appendices, and feel free to borrow or steal any sections that are useful to you.

Our bylaws are derived from the ICA (International Cooperative Association) bylaw template. We also drew from the bylaws of another local cooperative, an urban farming co-op called Harvest Collective. It's helpful to look at two different sets of bylaws we used as models, to see what has been changed and specified.

Our core volunteers met with other members to hash out details that would be specific to us — things like when and how we would return profit to investors each year. Once we had a draft of our bylaws, we ran them past a lawyer. After that, our board approved them.

We didn't require that our entire membership read them initially. But we have started presenting sections of bylaws at each member meeting, for educational purposes and to build broader consensus. This has also served to increase capacity within our membership, creating an entry point for members interested in leadership positions.

Tips for Writing Your Cooperative's Bylaws

If you choose to form a cooperative, plagiarize!

- Don't spend too much time and money with a lawyer, but they are helpful in facilitating and answering questions. They can also write bylaws for you if you don't have the time, energy or expertise. No need to drag people through a long process of developing bylaws, or you can burn out your team.
- Pace yourself. Work on just one section at a time. Work on things that are more fun in between.
- Look at other people's bylaws to see what you might want to keep, or steal.
- Be creative! The power structure wants to create mystery around business. You have a lot more agency, freedom than you might think to design the co-op the way you want to.

HOW TO MANAGE YOUR CO-OP

Board, Membership, the Day-to-Day

The two main groups that matter for the sake of running our cooperative are our **working board**, which meets biweekly, and our **membership**, which meets quarterly. At a glance, they look like this:

GENERAL MEMBERSHIP

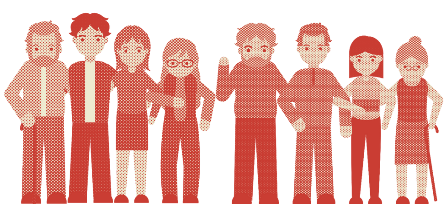
- Pays $125 to join co-op
- Wants to invest in values-aligned finance
- Wants to refinance their loans!
- Wants to learn about financial empowerment
- Attends one member meeting a year
- Votes in board election

WORKING BOARD

- Regular volunteers
- Combination of investor member and loan holding member
- Contains skills necessary to manage co-op; communications, finance, willingness to learn!

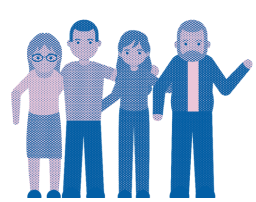
SSCoFi's Membership

The SSCoFi member-owners are the community that this cooperative serves. They are Washington-state residents who have chosen to engage with debt inequality in their community, through refinancing of their own loans or assisting others to do so. They are active at quarterly member meetings and vote on bylaw changes and new board members. They are engaged with their own and their community's financial empowerment, health, and social justice.



SSCOFI's Working Board

Our working board of eight individuals meets biweekly to handle the day-to-day running of the business. They keep accounting up to date, manage financial transactions, handle communications, plan events, and conduct annual tasks like filing taxes and distributing equity to members. Because of the wide range of skills needed to run a financial organization (even one that handles relatively modest sums of money), we have engaged board members who each bring unique skills to the co-op. Not everyone needs to know how to do everything — but it's helpful that everyone knows who can do what. Regular meetings ensure that the flow of decision-making remains clear and that relationships stay strong.



An example of SSCoFi's structural decision-making: Forming a credit committee versus having the board facilitate loan refinancing

We initially created a credit committee to evaluate prospective loans. The credit committee was made up of five people — three current co-op members and two external experts in business finance and student-loan management from Seattle's sustainable business community. These external members were brought in to create accountability and security with our loan portfolio. This committee evaluated each loan candidate based on criteria of (1) the viability of their loan, (2) the value the individual brings to the community, and (3) how much a refinance within the cooperative would help them out — not just financially, but by helping them to holistically manage their debt.

The logic behind this was that the three cooperative members on the committee could trump a "no" vote by the nonmembers if all three were in consensus that a loan should be refinanced — ultimately keeping power within the co-op. This committee then offered recommendations on whether a loan applicant should be refinanced to the working board of SSCoFi, and helped the applicant find the most advantageous terms.

However, as time went on, we found that this process was too burdensome for our all-volunteer team. It created a bottleneck because the credit committee convened less frequently than the board.

After two years of using this method, we voted to move the process of approving applications for refinancing to the board. During that time, our board had gained enough technical and financial skills to be able to effectively evaluate loans. We no longer felt that a separate committee was needed.

MORAL OF THE STORY: It's OK to change systems that aren't working for you. It's OK to evolve your processes to fit what will work for your group of individuals. That is how all natural systems work — and all organizations that serve their purpose, rather than be bound to the first or original way of doing things.

MINI-MORAL: Building capacity and skill building within your co-op will make you more capable of making these decisions like this confidently.

3. CULTURE BUILDING

As a volunteer-run cooperative, one thing to prepare for is the ever-shifting capacity of active volunteers. People are giving their time and labor to a collective effort. Likely they are doing it for free. This means that your organization needs to be able to adjust to the changing capacity of the individuals doing the work, and honor that people's lives will change. It also means that as an organization you need to consider what the cooperative is giving back to its members to sustain them and make them feel connected and excited to be there.

We're proud of the programs we've developed to live our values as a cooperative organization that supports its members on their financial empowerment journeys. Here is a working list of some of the ways that we have done this over the last few years:

PEER MENTORSHIP

Peer mentorship came up during many of our early conversations in the cooperative. We wanted members to be able to support each other on their career and financial paths in unique ways. This has happened formally and informally.

Formally, we have a "member sponsors" program. This requires all members who hold student loans to have a "loan sponsor." This person is their first line of defense in case a financial situation suddenly shifts and it looks like default may occur. A loan sponsor is someone who has agreed to meet with you if you run into financial difficulty. The sponsor can listen, talk through next steps, and make a game plan. This has been implemented when members experience a sudden job loss. They report that it helped them keep their spirits up and not feel so alone during a vulnerable and unsettling transition — and ultimately helped them avoid defaulting.

Informally, members who have connected through the co-op have met up over the years to exchange information, to co-work, and to offer each other advice and mentorship. Members starting small businesses and nonprofits have sought tax and legal advice from other members. Nonprofit professionals early in their career have reached out to have coffee with more established members. And baby boomers have sought the perspective of millennial members to help them see and respond to the current political landscape with a more rounded perspective.

CO-WORKING PARTIES AND “CHECK-IN” CULTURE

Managing Salish Sea Cooperative Finance has happened in a culture of co-working — at a kitchen table or over beers at a (hopefully) quiet bar. Co-working created accountability while also being in community. It’s a way of creating spaces for solidarity and support that transcends the “productivity mindset.” We begin these co-working sessions with check-ins, where people can share how they are doing, emotionally or personally, before the work begins.

This helps us better cultivate empathy and understand our individual needs as integrally tied to the organization's health. What is perhaps “lost” in meeting efficiency is gained by having much deeper and clearer insight into blockages and baggage that someone may have, preventing a certain task from getting done.

This practice is a part of deconstructing a capitalist and colonial narrative that prioritizes unyielding productivity over individuals’ emotional, physical, and intellectual needs. This has been a central facet of Salish Sea Cooperative Finance: This work, at its core, is about rehumanizing and resensitizing ourselves to be more fully present to understand individual and collective needs. This creates opportunities for individuals to show up fully in a space — and not have their identity be boiled down to that of a “worker” or a “laborer.”

This practice of decolonizing meeting structures and creating space for check-ins is, more than anything else, perhaps, how we have retained such a long-standing culture of volunteerism and sustained participation from our core volunteer team.

CHOOSING ORGANIZING SPACES

Over the years, we have met in no-nonsense library meeting rooms, upscale coworking spaces, cozy living rooms, established co-housing community spaces, coffee shops with spotty Wi-Fi, business conference rooms after hours, and, on rare sunny days, in grassy parks.

Most of the spaces we've chosen to meet in have been free, with a few exceptions. It can be tricky on a shoestring cooperative budget to have everything you need in a space: internet, proximity to bathrooms, wheelchair access, affordable food and beverage, a whiteboard, projector capability, and beyond. We've kept in mind the collective needs as much as possible — and then we just do our best.

Considering the culture that the space itself creates has been helpful for us in trying to create the most opportunity for connection, and to help rewrite the narrative of what a financial institution needs to look and feel like in order to be "real."

We've had some of our most successful member meetings in living rooms, with potluck provisions. We encourage you not to feel contained by parameters of "professionalism" which has often been used as a gatekeeper, preventing those already oppressed by systems of class, race, and gender from accessing services and communities that could provide benefit.

4. LEGAL

Before you get to the fun part of putting your community's capital to work, you'll have to legally formalize your organization and its structure. This is an important step in deciding on the exact model you want to create. Your chosen business structure may end up putting certain constraints on growth, meeting operations, and more.

There are two main legal requirements for a community lending model:

a. Incorporating your organization for tax and business purposes
b. Understanding and observing lending laws and regulations in your community

For each of these questions, you'll want to make sure you've looked at both state and federal laws that may apply to your organization. Note that every state is different. We recommend doing a lot of research with local experts to make sure you choose the right model for your state and local codes (especially on local lending regulations, which may be lesser-known than incorporation rules).

For SSCoFi, we are formally incorporated as a federal C-Corp and a Washington State nonprofit cooperative. On the question of lending regulation, we worked with a local nonprofit law firm that analyzed local laws and provided written guidance that our model does not require lending or securities regulation. For both questions, we recommend you work with local experts to determine the right form of incorporation, any requirements for local lending, and any other local legal requirements.

INCORPORATION

OTHERWISE KNOWN AS REGISTERING YOUR BADASS STUDENT LOAN ORGANIZATION BUSINESS

We'll start by saying this: Tax code is ***hecking confusing*** and every state is different. Choosing the kind of business license to file under defines many of the early structures legally required of your organization, and it will also impact the details of how your organization files taxes and what reporting is required. Federal and state laws may also allow different forms of incorporation and (as the SSCoFi structure shows), your federal and state forms don't have to match. It can be a lot, so let's talk about how SSCoFi navigated the question of how to incorporate.

FEDERAL FILING

On a federal level, the four main options are partnership, C-Corporation, S-Corporation, and Limited Liability Corporation.

Why no cooperative option? While the federal government offers a cooperative registration, it was created primarily for farming cooperatives doesn't apply well to alternative models. State laws on cooperatives generally have more nuance and specificity — allowing for you to act as a cooperative in your governance, while still maintaining compliance with a non-cooperative federal structure. We also considered nonprofit status, but our need to raise capital and desire to build a network of investor-members made a traditional nonprofit model unworkable.

We registered with the federal government as a C-Corp. We choose a C-Corp because it allowed for different types of shares (membership versus preferred, in our case), allowed for a larger membership (S-Corps can have only 100 shareholders), and reduced the reporting requirements for new membership (which are more involved with an LLC). Basically, we worked through a process of elimination, beginning with the idea of being an S-Corp and eventually realizing that the C-Corp structure was the one that gave us the flexibility to build our organization as we dreamed. The downside of a C-Corp, relative to the other options, is that C-corps have to pay double taxation (paying taxes on business income and then again when the profits are shared out to members and shareholders). We decided that this was a small price to pay for a legal structure that matched our vision.

How to Form a C Corporation (directly lifted from Incorporate.com)

1. Choose a legal name and reserve it, if the Secretary of State in your state does that sort of thing (not all of them do).
2. Draft and file your Articles of Incorporation with your Secretary of State.
3. Issue stock certificates to the initial shareholders.
4. Apply for a business license and other certificates specific to your industry.
5. File Form SS-4 or apply online at the Internal Revenue Service website to obtain an Employer Identification Number (EIN).
6. Apply for any other ID numbers required by state and local government agencies. Requirements vary from one jurisdiction to another, but generally your business will be required to pay unemployment, disability, and other payroll taxes — you will need tax ID numbers for those accounts in addition to your EIN.

STATE FILING: COOPERATIVE FILING

If your state offers a wider range of filing options in its tax code, you would both need to and want to get the business registration most specific to your kind of business. This varies state to state. In our case, we choose a nonprofit cooperative — the profits pass through to members, rather to nonowner shareholders. Washington State law was a good fit for our mission, with most of the legal restrictions in the law designed to ensure cooperative principles that we were already committed to honoring (equitable payouts, membership-based association).

Another interesting filing option is a Benefit Corporation. A Benefit Corporation is legally identical to a C-Corp, except that it expands the legally defined goals to include a positive impact on society, workers, the community, and the environment. This is in contrast to a normal C-Corp, where profit maximization is the explicit legal goal of the company and company leaders can be fired or sued for not maximizing profits (say, by choosing to pay employees more). A state-level Benefit Corporation filing is different from a “B-Corp,” which is a third-party certification offered by the nonprofit B Labs and not legally binding in the same way. We choose to become a formal cooperative as part of our principle of cooperativism, and for those in the 37 states where Benefit Corporations can be formed, this may be a mission-aligned filing option for your organization.

UNDERSTANDING LENDING LAWS

YOUR BADASS STUDENT LOAN ORGANIZATION BUSINESS & COMPLIANCE

The second main legal consideration for your organization involves compliance with rules and regulations around lending, such as the Truth in Lending Act requirements, securities regulation, and lending license requirements. Dealing with lending regulations makes the filing decision seem straightforward, as the rules are complex and vary by state. Most local regulations concern payday lending, usury (high interest rates), or collateral, which for mission-driven organizations are less relevant. Nonetheless, it is essential that you work with a local expert to evaluate which laws or regulations are relevant to lending in your community.

From the beginning, SSCoFi worked with a nonprofit lawyer from Apex Law Group, which has expertise in community-based finance models and related Securities and Exchange Commission (SEC) compliance. Our legal partner worked on our articles of incorporation and bylaws, and interacted with the Washington State Department of Financial Institutions (DFI) regarding rules for cooperatives. He was hired to do research in case law, and he wrote a memorandum that articulates the legal rationale for why SSCoFi is not dealing in securities and does not need to register with the SEC or DFI. The DFI provided us a compendium of letters of no-action related to cooperatives. Based on these documents, the DFI determined that, while SSCoFi represents a unique model both for cooperatives and for finance-concerned organizations, the SSCoFi model does not fall under security regulations.

Research to understand previous work is critical, but don't let that stop you from moving forward if you don't find a perfect example. We engaged dozens of people in our community to vet the concept and framework, specifically people with knowledge of securities laws as they pertain to community-based finance. We researched other models such as those of SoFi, Slow Money, Community Sourced Capital, and Strike Debt. Similar to the work by Apex Law, we discovered that similar models existed but none did what we wanted to do. We were creating something new, combining the energy and vision of Strike Debt and Occupy Wall Street with principles and models from microfinance, cooperatives, and-peer to-peer lending. By having conversations with advisors, it helped us develop credibility and confidence in moving forward.

TOM'S STORY OF FINANCIAL EMPOWERMENT

When Tom graduated from the University of Washington, he was *shocked*. Like many college students, his parents had handled financing for his education and had taken on a combination of federal and private loans to pay for Tom's education. Also like so many families, there hadn't been much of a conversation around the cost or debt involved. Tom was expected to go to college if he could, and his parents would handle the finances. Money can be an emotionally complicated topic for a lot of folks, and according to Tom, his family was no different.

So it was a big shock six months after graduation when Tom had to make his first student loan payment, saw that it was more than his rent, and realized he owed over $60,000 dollars of debt at an average interest rate over 7%. He wanted to refinance but had just landed his first job and had nowhere near the income he needed to work with a traditional bank. His family wasn't able to help.

Tom was left struggling with this debt and worried about being caught in a spiral of new loans and rising interest rates. As he wondered what to do, Tom wished he had been more engaged with the accounting and details of his student debt so he could have at least understood the burden he was taking on.

Thankfully, it was around this time that Nathaniel, Tom's old math tutor and a founding SSCoFi member, reached out with a question around incorporation for our cooperative. Tom got excited as they chatted about the SSCoFi model, and soon after applied for and received his first loan of $10,000 from the cooperative. Like so many of SSCoFi's borrowers, that first loan helped create a positive debt cycle, reducing Tom's payments and improving his ability to refinance his other debt with larger, more traditional lenders. He secured additional refinancings and brought his interest rate down to 5% on a remaining $42,000 of debt.

As important as the savings on his debt are, Tom now believes the bigger lesson of both his debt and his work with SSCoFi is the importance of understanding and engaging deeply with financial decisions. It took his dire situation to show him how important it was to care about these sorts of issues, and that's one of the reasons he is so passionate about SSCoFi's work to educate and empower others. As Tom puts it, "[measuring] where we are putting our resources [shows us] how we are putting them to work and what we are trying to do as a community."

5. ACCOUNTING

The next couple of sections (Accounting, Financials, Lending) cover details of how we track our finances, decide the details of our loans (interest rate, repayment time), and actually do the work of making sure potential borrowers were a good fit for our model and making them a loan.

Once you've created your organization, you'll want to start thinking about how best to manage and track the money and capital you'll be handling. As Tom learned, it's natural for folks to shy away from this topic as too dry, but it is essential to maintaining the trust of your community and keeping the organization moving forward. If successful, you will be managing tens of thousands of dollars that the members have entrusted to your cooperative and you need to ensure you are stewarding that money in a responsible and transparent way.

Broadly speaking, you'll need to tackle three tasks in your accounting:

a. Open a bank account for your organization
b. Set up software to track all the ins-and-outs of money
c. File taxes

We ended up banking with a small, Seattle-based B-Corp bank called Beneficial State Bank. We use an open-source accounting software called GnuCash, and while the software only covers relatively simple transactions and accounting needs, it is more than enough for our organization and a better fit than something with more bells and whistles like Intuit's QuickBooks. Finally, we have members with enough accounting experience to file our taxes, but we did have a local social justice-oriented accounting firm complete our first tax filing so we could learn by working with them and have the first complete filing as guidance for future filings.

A. OPENING A BANK ACCOUNT

You need somewhere to keep your scratch! Of course the whole point of this is to create empowered, healthy communities, so, please don't bank at Chase, Wells Fargo, or any other bank that invests in fossil fuels, the prison industrial complex, and Monsanto. Bank with local credit union, a B-Corp bank, or another values-based institution.

Two things you need in a bank

1. An account that you put your money into. We have separated out our checking account and our savings account, where we keep our loan loss reserve. Any funds waiting to be lent out should be placed in a savings account to accrue interest.
2. Automatic direct deposit services. While you could receive monthly borrower payments via check or cash, it is a lot easier for everyone to use automatic payments using a service like PopMoney. This also helps members feel like refinancing is making their life easier, not harder.

It's best practice to have separation of duties and not have a single individual with full control of the finances. An accountant should have view-only access, while someone else cuts checks and moves money around. One person monitors the books, and another person implements the transactions so there's no one person with every type of access. This is important for auditing, as well as for financial security.

B. SETTING UP SOFTWARE FOR FINANCIAL TRACKING

Your organization needs an organized way to track revenue, expenses, and the state of your finances. From an accounting perspective, this mainly happens through monthly reconciliation, which involves comparing your bookkeeping against the transactions on your banking statements. Quarterly and annual financial reporting is also usually required for both tax reasons and to prepare regular reports for your organization's members.

Tracking and preparing these statements is best done with accounting software. Most accounting software can assist with both processes. SSCoFi uses a free accounting software called Gnu Cash for basic bookkeeping (monthly reconciliation) and financial reporting. This software can only handle simple accounting functionality, but it is a great resource for organizations starting out with a minimal budget. We found that it covered our needs. If your cooperative requires accounting software with more complex features (i.e., invoicing, bill pay, etc.), then a subscription to an online accounting service such as QuickBooks Online is recommended.

You don't have to use QuickBooks or another paid accounting service, but you should have everything tracked in a clear and concise manner so that accounting information is readily available. Please see **Resource and Sample Documents Section 3.1-3.3 (pg. 66)** for more details on the accounting structure of SSCoFi and some examples of our transactions and balance sheet.

C. TAX FILING

Tax forms and deadlines depend on how your organization is structured. C-corporations need to file a Form 1220 by March 15, while cooperatives need to file a Form 1120 by April 15. You can also file for a six-month extension if needed. To complete your tax forms, you will need to prepare your financial statements for the fiscal period of the return. Typically, an accounting software is the most convenient way to prepare your financial statements, and both QuickBooks Online or GnuCash can generate these statements.

Based on our experience, we would recommend hiring a third-party accountant for your initial tax return and then filing taxes on your own moving forward if you have the capacity and if your taxes are not complex. While it isn't cheap (we paid $1,500 for our one filing), it is a valuable learning experience. Once you prepare your first tax return, it should be routine afterwards except making sure that there aren't any major changes to the tax code pertaining to your business.

If you're planning on hiring an external accountant, the most cost effective way is to use a small accounting practice — especially if you can find one that is aligned with your organization's values. For example, we hired a social justice accounting practice called EJK Accounting in Seattle.

While still expensive, they were able to offer concessionary rates and were helpful in talking through our tax filing so we could learn to do it ourselves. Finding the right forms for filing can take a lot of time, and once the filing has been prepared once, it is far easier to prepare again the next year with new numbers. A third-party accountant will usually request your organization's financial information for the tax year approximately one month prior to the tax return deadline.

6. FINANCIALS

In this section, we cover how to figure out the finances of lending, including how we set the interest rates on our loans, what returns and types of investment we offered to investors, and what costs we had to cover to make sure that our loans would be profitable enough to support our organization.

Before we get into the details, it is important to recognize that there is no single perfect solution to the question of how to structure your lending and finances. The loans must meet the needs of the borrowers, the investors, and the overall member community. However, while your particular solution will be unique to your community's situation and resources, the key questions and factors to consider when trying to create a financially sustainable community lending model will be the same:

1. How much will your borrowers have to pay? What interest rate will you charge borrowers on their loan and how long will they have to pay the loan back (this period is called the "term" of the loan)?
2. Where will you get your lending capital, and what will you pay to investors? Will capital come from debt, equity, or grants? What rate of return will you offer your investor members if you are offering debt or equity, and how long will you take to repay your investors?
3. How much will it cost to make the loans and keep the lights on for your organization? Will you put some money aside to cover any losses if borrowers can't repay? How much will it cost to do all the internal work (tax filing, legal, member events)? Will you aim to hire folks to help with the organization?

This may feel like a lot of questions. But at the end of the day, they will help you think through where money will come into the organization (e.g., loan interest, grants) and where money will go out (e.g., making the loans and running the organization, paying back investors). Getting solid answers to these questions will help ensure Your Badass Student Loan Organization Business Thingy™ will be able to sustainably provide low-cost loans for local borrowers and keep investor capital local. At SSCoFi, we took an iterative approach, moving back and forth for months between the different groups in a constant dialogue before we settled on a model that worked for everyone. We recommend doing the same to ensure all voices in the community are heard.

After months of dialogue, research, and modelling, we settled on offering potential borrowers 10-year loans with a 5% interest rate. For a $10,000 loan, that works out to a monthly payment of $106. We provide a target annual return of 2.5% to investors. SSCoFi has a “sunset date” of 20 years, meaning that all investments and profits will be fully paid out 20 years after the first loan is made and that the current fund of the cooperative will cease to exist. This means that all loans must be made in the first 10 years of operation. We set aside 4% to cover any loan losses (0% to date) and expected $3,000 in administrative costs per year ($500 a year in reality thanks to members handling tax filing – thanks, Tom!)

So how did we get there?

BORROWER INTEREST RATE & TERM

Our goal with borrowers was to offer them the largest possible savings when they refinanced their loans with SSCoFi. This would reduce their financial obligations and give them more space to pursue careers or ideas they were passionate about. Everything in the cooperative's financial model worked backward from that point.

MONTHLY PAYMENTS AT DIFFERENT INTEREST RATES & TERMS FOR AVERAGE STUDENT DEBT ($29K)

Interest Rate	3 Years	5 Years	10 Years
8%	$853.45	$807.98	$800.08
7%	$767.15	$712.29	$700.21
6%	$683.95	$618.76	$600.55
5%	$604.34	$528.28	$501.44
4%	$528.87	$442.02	$403.65
3%	$458.04	$361.33	$308.90

Unsurprisingly, it's the interest rate that is the most important variable. Reducing it by 1% is much more impactful than letting borrowers take longer to repay, especially if they are already taking 5 or 10 years. For us, that meant that working with investors to allow us to offer the lowest interest rate was the focus of our discussions.

INVESTOR RETURNS & TERMS

From the start, we wanted to offer our investor members a positive return on their capital. They were stepping forward to provide resources to others, and we wanted to make sure they were rewarded for that. Of course, we still had to decide what kind of structure and returns to offer them. To do that, we looked at the two traditional forms of investor capital (debt and equity) as well as the possibility of our cooperative raising grant or donated capital

DEBT

From the investor's perspective, lending to the cooperative is the least risky option. With debt, investors are guaranteed regular payments from the cooperative with a pre-set interest rate. Since debt is less risky (lenders are the first in line in a bankruptcy), we could also offer a lower rate of return and still feel that we were offering investors a fair deal. On the downside, from our perspective, choosing to have investors loan money to us would limit the cooperative's flexibility because we would need to pay our lenders no matter what.

EQUITY

For a lending cooperative, equity is attractive because it has no fixed return and no due date. Equity investors only earn returns when the incomes from the loans are greater than the costs of the cooperative (versus the guaranteed payment schedule of lending). Additionally, unlike a corporation, investors who invest more equity into a cooperative don't get any more votes or control. All they are entitled to is a larger share of the profits (in our case, that comes after paying each member their patronage dividends).

GRANTS

Grants are the most flexible and favorable from a financial perspective because they do not need to be paid back. Not having to pay interest to lenders or profits out to equity investors means more money can either be distributed to members or can be recycled to make more loans and increase the impact of the operations. These advantages are not without downsides, however. Practically, getting sufficient donations means reaching out to a wide group or working with large grant-giving organizations outside the community. Philosophically, we were inspired by the self-sufficiency of ecological systems, recycling wealth within our smaller community, and the power of demonstrating that investors would be interested in supporting this new model.

Looking at these options (debt, equity, and grants), we focused on **equity**. It offered the right balance between generating value for our investor-members and still giving us the flexibility to serve our borrowers. Initially we had a mix of different capital as we got off the ground: loans to cover the start-up costs, some investor equity as the initial lending money, and community donations to help provide a safety cushion and cover unexpected costs. Over time, however, we have paid down our debt and focused on raising equity.

This was possible because we were able to find investors willing to accept a 3% return on their equity investments. For reference, the stock market averages a return of 7% to 8% a year, and TIAA-CREF's Social Equity Fund, one of the largest impact-investing funds in the world, has earned average annual returns of 7% since 2000. While our return was lower than those benchmarks, our investor-members were driven by the vision of our mission and a powerful desire to support their community.

"This is a smart investment in the long-term health of my community," as one investor put it. "I love that my money is staying and doing work here in Washington."

We were lucky to be part of a community in the Seattle area willing to support social impact businesses. Our investor-members understood that proving out our model could provide a self-sustaining source of community-oriented capital for the greater Seattle area, keeping capital local and allowing borrowers to pursue more impactful careers around issues important to both borrowers and investors.

"I LOVE THAT MY MONEY IS STAYING AND DOING WORK HERE IN WASHINGTON."

BUDGET

As we grappled with these questions, we also faced the basic question of what we thought our costs would be and how to make sure that our loans would cover them. Some costs would be fixed constants (e.g., the cost of filing taxes each year) and so could be spread out over the portfolio. Others, such as loan loss reserves, came with every loan. Given the scale of our operations, we also had issues like the question of staff cost, which would be fixed once staff was hired but would only be needed when the portfolio reached a certain size. **The major costs we considered were:**

Loan Losses (Estimated: 4% of portfolio, actual: 0%)

While we would work with any borrower struggling to pay, the reality is that every loan comes with a risk that we will have to consider the money lent out lost (or some portion of it). Lenders call this a charge-off, and the average bank loan charge-off rates are 2% to 4%. During the height of the financial crisis, loan charge-off rates peaked at 6.6% but by 2018 average charge-off rates were back down to 2.3%. To be safe, we assumed a charge-off rate of 4% and planned to set aside that amount of each loan we made as a loan loss reserve. To date, we've had no charge-offs.

General & Administrative Costs (Estimated: $3,000 a year, actual: $500)

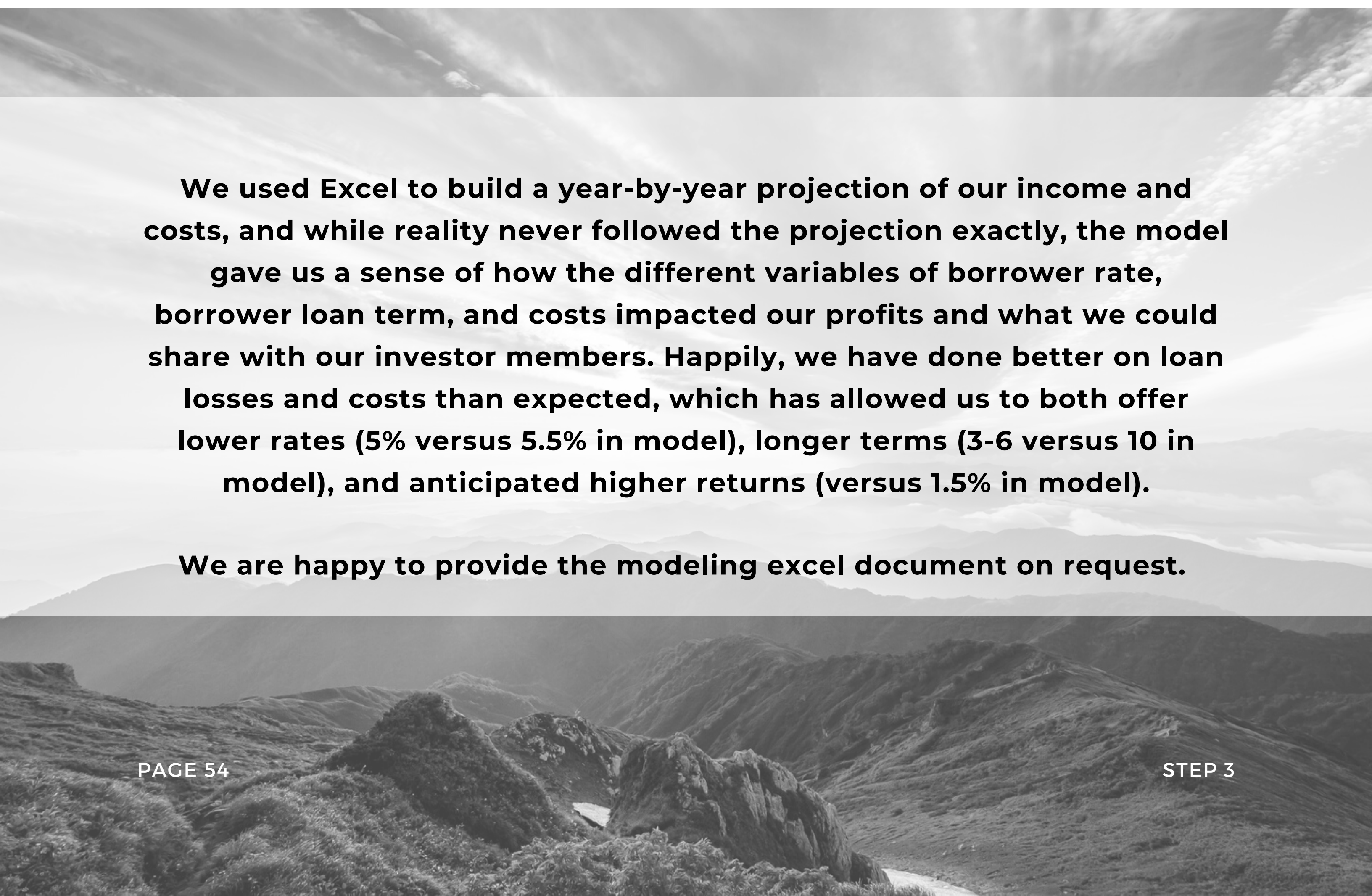
The major fixed costs for the cooperative are administrative expenses such as legal preparation and tax expenses. These are relatively fixed, and we incur few other administration costs or general expenses such as rent or outreach costs because of our reliance on volunteer and member support. Our model estimated annual general and administrative costs of $3,000 a year, but with members stepping up to perform tax and accounting work free of charge, these costs have fallen to less than $500 a year. Please see **Resources Sample Documents Section 3.1 (pg. 66)** for an example of our costs.

Staff Cost

The biggest cost we considered but did not model was the cost of part- or full-time staff. Given the scale of the expense (a loan officer makes $46,000 a year as a base salary in Seattle before commissions), we realized that we would need a sizable portfolio (roughly $400,000) to cover even half that salary. Until we proved out the model, we also weren't sure how much work would be required to run the portfolio and support lending. For these reasons, we didn't include the cost of a paid staff member in our modelling.

Based on all these estimates, we were able to calculate what our expected investor returns would be based on the interest rate we were willing to offer our borrowers, our loan loss reserves, and our fixed costs. As the table below shows, with fixed expenses of $3,000, a 4% loan loss reserve, and no staff, our portfolio needed to be over $50,000 to generate positive investor returns ($53,210 to be exact).

Loan Portfolio Size	$50,000	$100,000	$200,000	$300,000	$600,000	$1,000,000
Projected Investor Return (No Staff)	-0.1%	1.5%	3.1%	3.8%	4.8%	5.2%



We used Excel to build a year-by-year projection of our income and costs, and while reality never followed the projection exactly, the model gave us a sense of how the different variables of borrower rate, borrower loan term, and costs impacted our profits and what we could share with our investor members. Happily, we have done better on loan losses and costs than expected, which has allowed us to both offer lower rates (5% versus 5.5% in model), longer terms (3-6 versus 10 in model), and anticipated higher returns (versus 1.5% in model).

We are happy to provide the modeling excel document on request.

SUNSET DATE

SSCoFi is set up with a planned end date of 2035 when we will return all initial investor capital to our members. All of our loans are set to be repaid ahead of this date, and no new loans will be made past 2028 as we approach the “sunset” date. Investors can withdraw their money ahead of this date if they choose, and some have.

The sunset date doesn’t mean the cooperative will shut down, only that our initial “Phase 1” investors will be repaid. This leaves open the possibility of raising additional funds with a new end date if the membership chooses.

We wanted a permanent end date for our first set of investors and loans based on the combination of our overall philosophy and conversations with investors. As with so much of our financial design work, we were focused on how to leverage the power of shared resources to help our community without falling into the traps of traditional financing such as debt cycles and the need for perpetual growth. We believed that a definite end date would force SSCoFi’s community to think deeply about the next phase and avoid the default assumption that our work must indefinitely continue forward.

7. LENDING

You've made it! You've mobilized your community, written your bylaws, incorporated your Badass Student Loan Organization Business Thingy™, set up a bank account and financial accounting systems, and settled on your interest rates, terms, and expectations with both borrowers and investors. Now it's time to lend the capital out. It took us about two years to get to this point, so give yourself a nice pat on the back for even reading this far.

Now comes the actual lending. In this section we'll walk through our lending process and cover details on:

1. What sort of information you should collect
2. How to evaluate potential borrowers
3. What you need to do to actually make the loan and disburse the money to your borrowers

For SSCoFI, our loan process came from a combination of member experience in the lending industry and documents we received through collaboration with a local nonprofit lender. While it can be tempting to try and create an elaborate process to cover every data point and possibility, we recommend keeping the process of collecting information and evaluating potential borrowers as simple as possible.

THE SSCOFI PROCESS

We have four major steps when making a loan: i**nitial application, first review, due diligence, and final review/approval, and closing the loan.** But after the finances are settled, the story doesn't end there. Member engagement remains important — it is a key part of our vision of holistic community development. This is in keeping with our philosophy, and all the modifications we made to the templates we began with are meant to emphasize our borrowers as human beings rather than names, addresses, and credit scores.

STEPS OF SSCOFI'S INITIAL LOAN PROCESS

1 Initial Application

1. Simple background (name, age, address)
2. Job status/history
3. Total student debt and interest rate
4. Other debt

2 First Review

Small group reviews applications and raises red flags. Focus is on applicant prioritization, next steps. Would an SSCoFi loan save this person money?

3 Due Diligence

1. Current bank balances, pay stub, credit card statements
2. Risk evaluation
3. Sponsor contracts

4 Loan Decision

Review of all borrower info. Decision focuses on risks, opportunities, and impact to overall portfolio.

5 Closing the loan

1. Signing the promissory note
2. Refinancing the existing loan
3. Setting up repayment
4. Setting up a mentorship schedule:

Our experience has confirmed that our clear, simple, and consistent application process was helpful both to borrowers (so we can communicate expectations and timing clearly and quickly) and to investors (so we can make sure we are being mindful with the resources they are sharing). While we have now streamlined the credit committee portion, the rest of the process is still happening as originally designed. The process is overseen by SSCoFi "member-advisors" who work with potential borrowers throughout the process to help answer questions and provide assistance. We found this one-on-one model to be effective, as demystifying the questions, intentions, and process of loan evaluation was a big help to our borrowers. While the first couple of loans took several months due to time constraints and the need to "debug" our own processes, this process now takes just a few weeks.

Below is a walkthrough of each step in the process. Process materials can be found in **Section 2 of our Resources and Sample Documents (pg 66).**

1 Initial Application

INITIAL APPLICATION

The first step is for each potential borrower to complete a short, two page initial application. The purpose of this application is to understand the situation of the borrower, and covers basic contact info, current student debt amounts and interest rates, job status, and a final question on why they are applying. We wanted to make this process as simple as possible by collecting the bare minimum of information before moving into deeper conversations. This application was based on documents we received from mission-aligned nonprofit lenders. Unlike traditional lenders, though, we wanted to keep the application as simple as possible for borrowers.

This first application is not meant to screen people out. Instead, it serves as a guide for our member-advisors in discussions about what we could offer the applicant on loan savings and terms. We also made sure to add an open-ended question to the application, in order to give our members a chance to hear the voice of the borrower and start to understand their holistic need for borrowing. This also demonstrates to borrowers that SSCoFi takes a different approach than traditional lenders to understanding their needs.

2 First Review

FIRST REVIEW

The first review is meant to prioritize different applications as well as to identify areas of follow-up for new applications. At this point, we only turn down borrowers when they already have interest rates below ours and therefore would not benefit from the refinance process. Questions at this point tend to be focused on the overall picture of the borrower and the potential impact to them of SSCoFI capital. Are they in a high-risk situation where refinancing can make a meaningful impact? Are they being affected by one-time events, or do we think the issues they face in repaying their loans are more structural? Can we offer terms that will help them, or would training and community building do more to help them reach their potential?

3 Due Diligence

DUE DILIGENCE

This step is where most of the work takes place. Based on the questions coming out of the first review, our advisors work with borrowers to collect and verify current financial information and perform a holistic risk assessment. We also require each borrower to have two members as “sponsors”, who commit to regularly meeting to discuss any financial, employment, or other life issues that the borrower is dealing with. Based on all these inputs, we then determine a suitable loan structure.

Data Collection

For verification, we collect bank statements and credit cards statements to cross-check the initial information provided by borrowers. We also ask for a recent pay stub to verify income and job status, as well as documentation on all current student loans. This information both confirms our understanding of the borrower’s situation and helps us evaluate risk.

Risk Evaluation

As part of our mission to create a more human-focused lending model, we wanted to create a new way to consider risk. The borrower's story cannot be summed up in a number, no matter how hard lenders try, and we actively decided not to include credit scores as an input to our evaluation. Credit scores are simplistic and incomplete, focusing only on past borrowing behavior and leaving out employment, changes to personal situations, and community support. Instead, we created our own simple risk evaluation system (see **Resources and Sample Documents Section 2.6**) meant to capture the risk of borrowers not repaying.

The risk of borrowers not repaying is evaluated by looking at the following:

- **Ability to Repay:** Simply put, will borrowers have the cash on hand to cover their SSCoFI payments? This is primarily addressed by the debt-to-income (DTI) calculations. DTI is calculated as a borrower's total monthly debt payments (auto, student, mortgage, credit card, other) divided by their monthly pre-tax income. We look both at past income as well as future income potential when evaluating this metric.

- **Existing Resources:** This is measured by the borrower's net worth and captures any buffer they may have in the event of emergencies. We collected only one data point on this because we were more interested in income and future ability to repay, rather than lending to candidates who already have money in the bank.

- **Borrower Conditions:** Every individual faces a unique set of conditions in their lives, some of which may impact their ability to repay their loans. Examples of these factors are medical fees or other major obligations such as child support. These tend to be unpredictable, but as part of our lending conversation, we wanted to make sure we were aware of the major contingencies in our borrowers' lives.

Sponsors

Individual finances matter, but we go beyond them by relying on the wisdom and trust of our community through our sponsor program. Each borrower was required to have two sponsors who would agree to meet regularly with the borrower to discuss their current life situation, needs, and concerns. This was meant to be a combination of financial, employment, and budgetary counseling. It also was meant to ensure that the borrower-member felt integrated into and supported by the broader SSCoFi community and would feel comfortable reaching out for help and assistance. It was part of our vision that our cooperative wouldn't just provide financial capital but also generative social and human capital to help borrowers connect and grow in their careers and pursuits.

Loan Structure

Based on the data from the due diligence, the final step before preparing a loan recommendation is determining the structure of the loan. Our ideal case is to use our usual structure (constant monthly payments at 5% interest over 7 years) to keep things as simple as possible. Reality is messy, however, and the needs of borrowers vary substantially. We did one "two-step loan" where we made a small first loan and then lent more six months later, as the borrower showed progress on improving their financial situation. In another case, the borrower switched careers through a coding boot camp, and we let them skip payments during the program.

4 Loan Decision

LOAN DECISION

This is the point where the loan is either approved or rejected. Given the importance of this step, we initially set up a special credit committee consisting of three cooperative members and two external committee members with experience in lending and career development. While helpful initially as we refined in our lending process, the credit committee structure significantly slowed down our lending and was dissolved in early 2019. A special subcommittee of the SSCoFi board now makes loan decisions.

Regardless of the format, this step is meant to surface all information and hear all perspectives to ensure the decision is made with a complete picture of the situation. Generally, discussions in the approval meetings tend to focus on risks and opportunities for the borrower, and higher-risk loans can take an hour or more to talk over and fully understand the options available. For a mission-driven lender like SSCoFi, this sort of creative thinking and problem solving from the credit evaluators is critical both to making the model work and to ensuring that borrowers feel that their story is being heard and that the credit process is a discussion rather than black box.

5 Closing The Loan

CLOSING THE LOAN & POST APPROVAL

The work isn't over once we approve the loan! Once the loan decision has been made, SSCoFi works with the borrower to complete the necessary logistical steps to refinance their loan, set up regular payments to the cooperative, and engage with their mentors. The process of closing the lending process can be broken down into four main steps: signing the promissory note, refinancing the existing loan, setting up repayment, and setting up a mentorship schedule:

Signing the Promissory Note:
The first step is to sign a promissory note, or the legal document that defines SSCoFI's loan to the borrower (rate, term) and the obligations of both parties. This should be a standardized process for each borrower, and all documentation from this step should be kept in a secure location to ensure it can be referenced in the future.

Refinancing the Loan:
Once the loan agreement is signed, the cooperative needs to complete its obligation to repay the borrower's existing student debt. Rather than transfer the money to the borrower, SSCoFi directly transfers a payment to the existing lender.

Setting up Repayment:
Once the cooperative has refinanced the loan, the borrower needs to begin making monthly payments into the cooperative's bank or credit union account. We work with the borrower to set up a scheduled direct transfer when possible to eliminate the need for them to remember to send the money every month. In the case where a scheduled direct transfer isn't possible, we accept checks via the mail.

Scheduling Mentorship:
Our borrowers meet with their mentors on a regular basis. These meetings begin immediately after the loan is made and will often continue on a monthly basis. Over time, these tend to become twice-a-year meetings or as requested by the borrower.

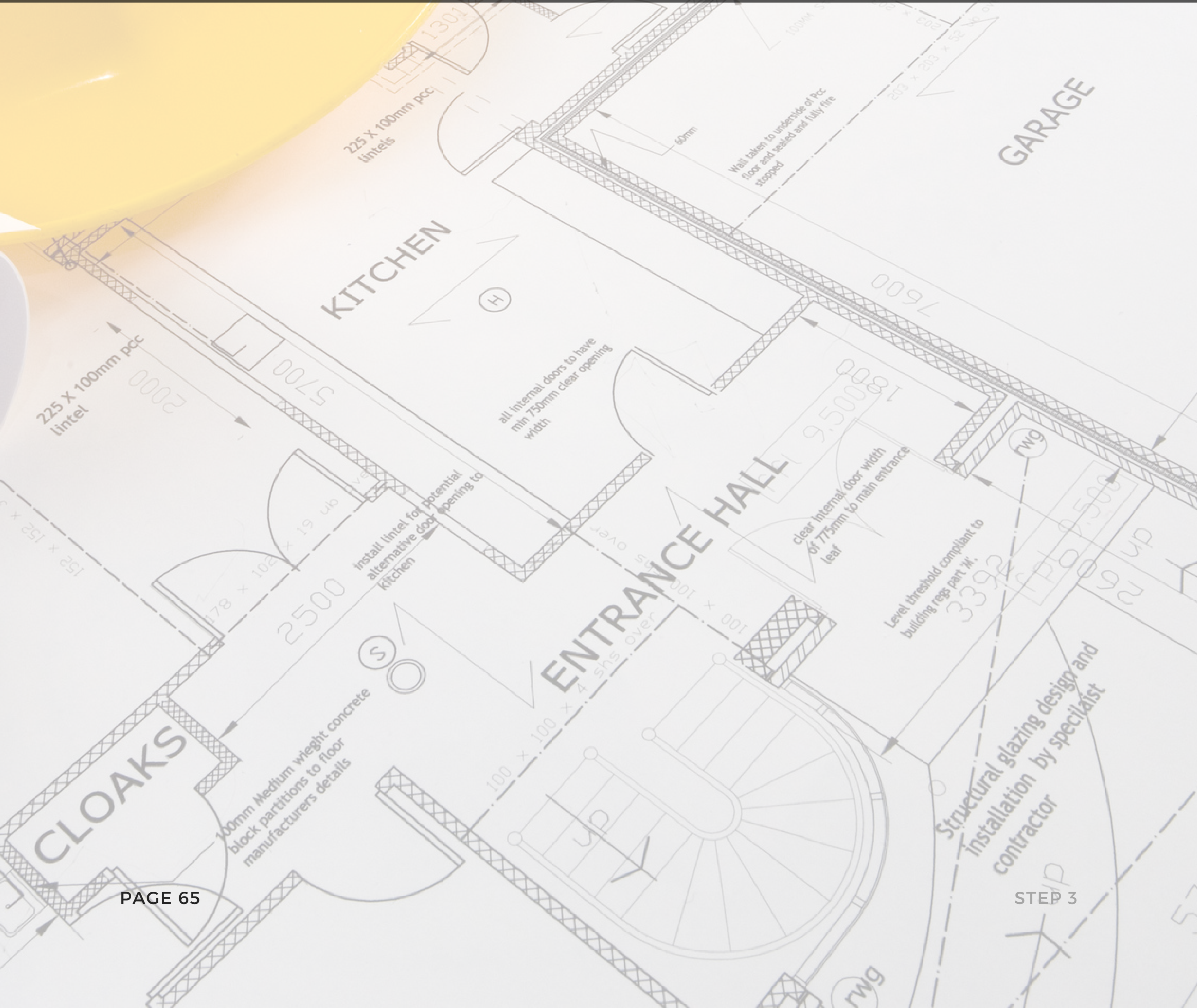
ONGOING ENGAGEMENT & MONITORING

SSCoFi's model is built around a shared community of borrowers and investors, and we work to bring them together. The mentorship and sponsor programs give them individuals committed to their success they can reach out to, and our regular member meetings and educational events provide a more organic way for them to discuss how they are doing, raise any issues or concerns they might have, and receive support from the broader member community.

In the event of a missed or partial payment, we work with our borrowers. Our loans have a penalty interest rate of 12% that takes effect after 30 days of nonpayment as an accountability measure on the loan. In the event that a borrower has not reached out and they miss a payment, we immediately engage with their mentors and sponsors to reach out and help the borrower with whatever issues have arisen. We have had a 100% on-time payment rate to date for all our loans, and we believe that the interconnected social nature of our cooperative is a large part of what makes that possible. Even in the event of a missed payment or a default, having a strong community to support the borrower (rather than chase them down like the traditional model) will lead to better results for all sides.

"I DIDN'T REALLY STEAL IT. I JUST BORROWED IT FOR ALL ETERNITY."

- Kurt Vonnegut Jr. (Mother Night)



OKAY. READY TO START YOUR CO-OP?

Really! Steal this stuff! It's not even stealing. It's just the new economy becoming stronger and more resilient. We are on the shoulders of giants. We've made many of the organizational documents created over the years accessible, open source and downloadable for others who want to replicate our business model, or use parts and pieces for your own financial community empowerment projects.

You can access and download all these documents at
www.Salishseafinance.coop/guidebook

RESOURCES & SAMPLE DOCUMENTS

Start-up Resources
1.1 — Articles of Incorporation
1.2 — Bylaws
1.3 — Cooperative Transaction Securities Exemption
1.4 — Due Diligence Disclosures
1.5 — New Member Application

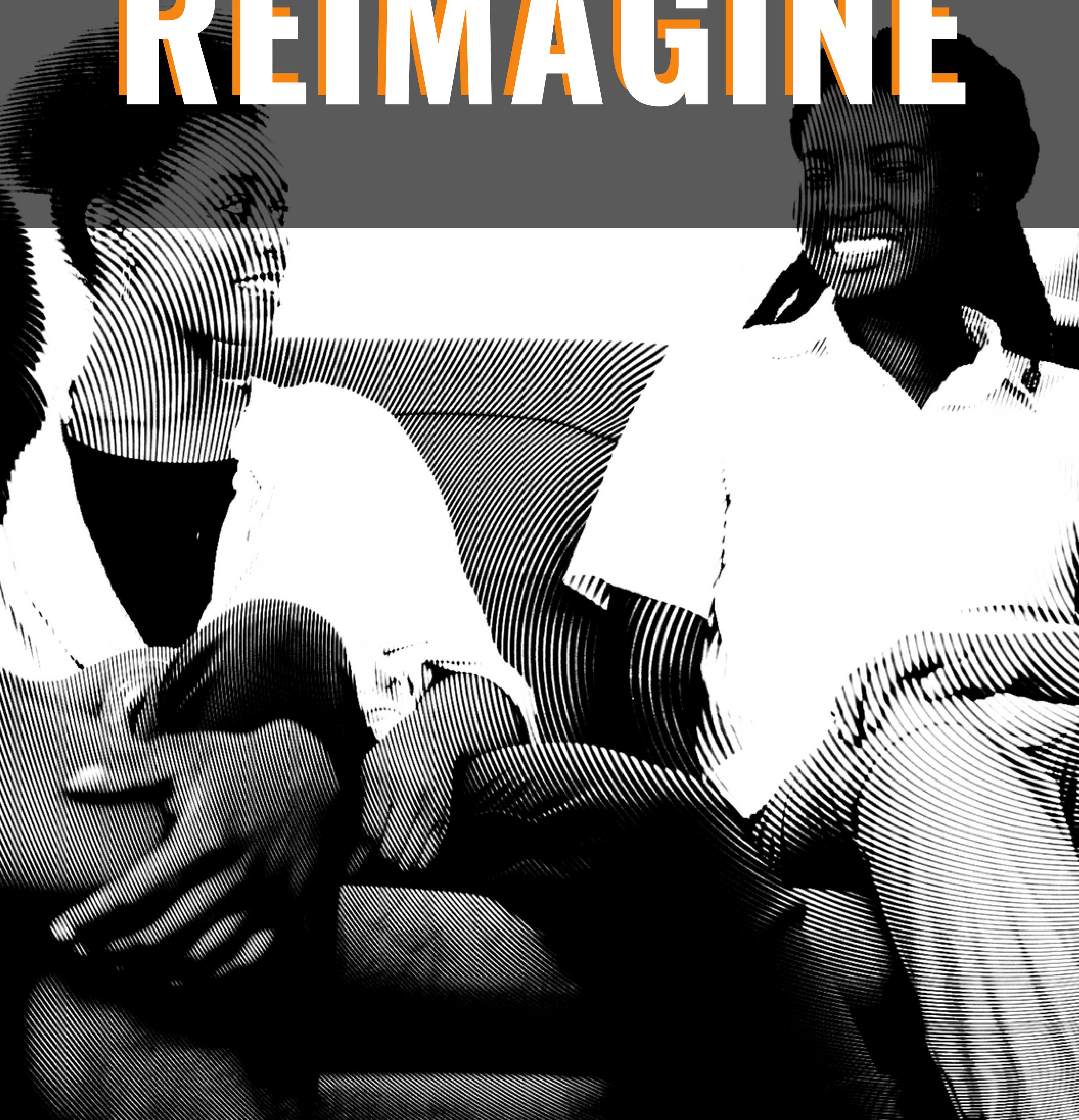
Making Loans & Accepting Investments
2.1—Loan Application
- Individual
  - Sponsor Agreement
  - Loan Application Form
  - Cash Flow Worksheet
  - Net Worth Worksheet
- Household
  - Sponsor Agreement
  - Loan Application Form
  - Cash Flow Worksheet
  - Net Worth Worksheet

2.2 — Promissory Note
2.3 — Amortization Schedules
2.4 — Letter of Agreement
2.5 — Sample Break Up With Your Bank Letter!
2.6 — Loan Risk Analysis

Organizational Health
3.1 — Profit & Loss Statement
3.2 — Salish Sea Cooperative Finance FAQ
3.3 — Treasury Report Presentation

BEYOND REFINANCING

REIMAGINE



BEYOND REFINANCING

Over the past eight years, we've seen the incredible power of our model in helping borrowers across the Salish Sea region. However, we are also aware of its limitations, in terms of who it can help as well as its narrow focus on student debt. With the COVID pandemic, we were forced to face these limitations head on and find new ways to support our community. This section covers the new direct debt relief model we launched over the past year to help BIPOC organizers on the front lines of so many pressing social issues. It also covers our thinking on applying the community-capital refinancing model to some of the many other types of debt (credit card, medical, auto, etc.).

Unlike earlier sections, this final portion is focused less on helping you replicate solutions and more on demonstrating the importance of continually reflecting on how our work can best create positive impact. The biggest lesson is that there are many different ways to leverage the mutual support and power of a community to address financial barriers, and we constantly need to be asking ourselves if our work and our model are truly meeting the needs of our community.

DEBT RELIEF

One group we knew our model didn't work as well for was community organizers. This was a significant issue, as these folks were some of the most important to support, given the power of their work. They could be reimagining public safety by shifting resources from police and incarceration to community health and safety. Others were fighting gentrification and displacement in historically Black and Asian neighborhoods or working with youth to connect food and climate justice. Unfortunately, many organizers have substantial student debt and are unpaid or underpaid. They found refinancing to just be the lesser of two evils because it still left them with unpayable monthly bills. This was particularly true for BIPOC organizers, who often faced larger than average student debt.

So in mid-2020, as the COVID-19 pandemic raged and the work of these organizers became even more important, we went beyond lending to provide direct debt relief funded through mutual aid contributions. We were inspired by examples of community mutual aid and direct support during the first months of the pandemic, and were able to use our expertise with student debt to quickly launch, alongside a partner nonprofit For The People, the Community Care Debt Relief fund (CCDR).

The CCDR accepts one-time and recurring donations, which it uses to provide direct student loan relief to participating BIPOC organizers. This project benefits community organizers of color in the Seattle area who use their time and talents to work for racial, climate, and economic justice. To date, we have taken on supporting three local organizers facing over $200,000 in combined student debt. Further, we've seen an incredible response from our existing membership and broader community, with dozens of new members committing to monthly contributions amounting to XK of relieved monthly debt payments by our organizers.

The response of our membership is driven by two factors. One, making smaller monthly contributions to the CCDR is an easier step to take than a long-term investment to provide refinancing capital and so appeals to a wider group of supporters. Second, CCDR contributions are more immediate — a direct transfer of wealth from yourself to people who would otherwise be losing wealth year after year, and who are working to strengthen communities of color. Our membership, which is largely white, recognizes that making solidarity debt payments to BIPOC community organizers can be a form of voluntary wealth redistribution and small-scale reparations.

We believe that the CCDR is a powerful complement to our community-based lending. The strong community response is also a testament to the power and possibility of evolving your organization to meet the needs of the community, always looking for ways to update and adapt to new circumstances and situations. It took the COVID pandemic for us to launch the CCDR, but we believe it will be a critical part of our model and impact going forward.

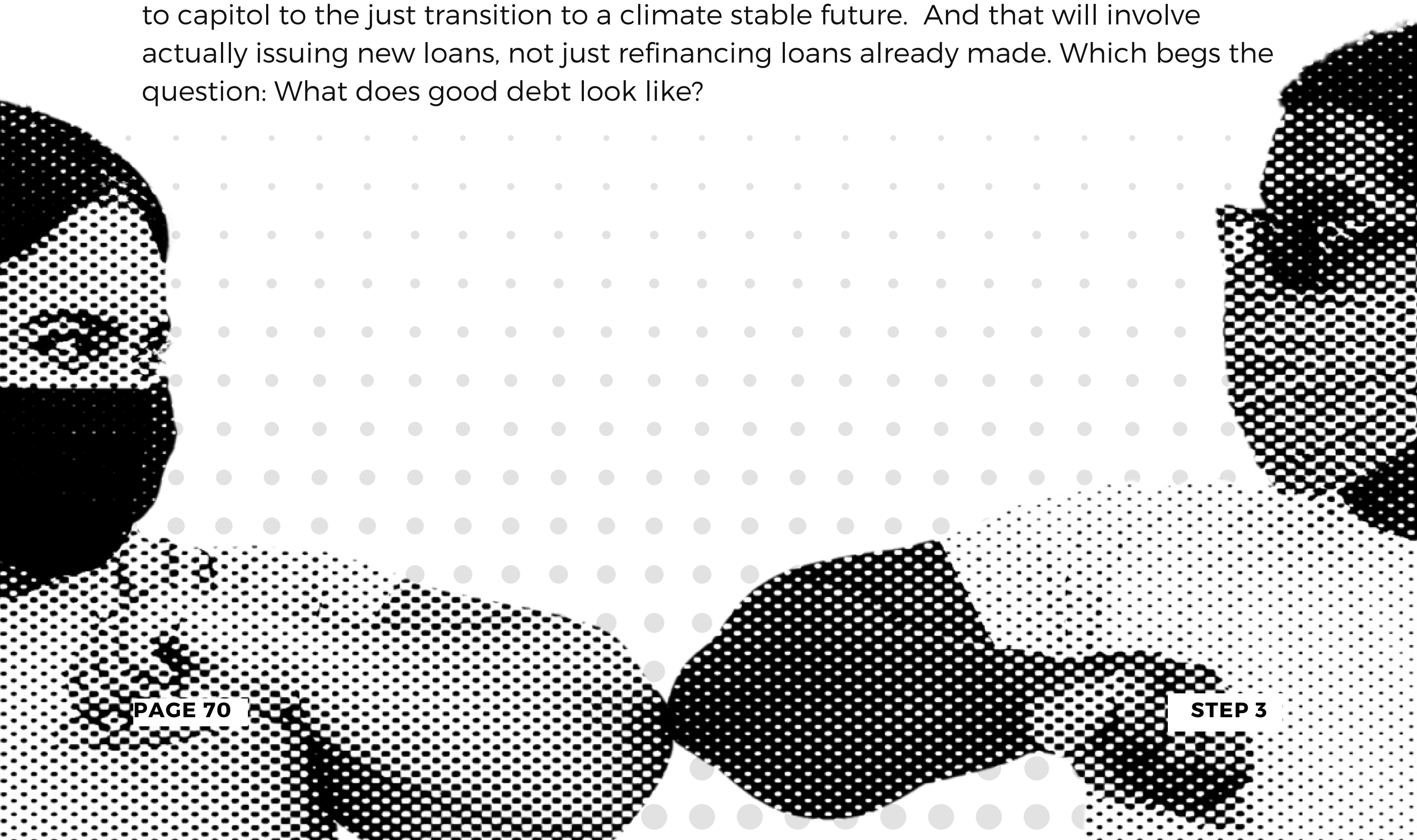
APPLYING SSCOFI'S MODEL TO OTHER FORMS OF DEBT

As we've begun to discuss, our community hold many different forms of debt. Beyond student debt there is credit card debt, home and home equity debt, prison debt, medical debt, car payment debt, payday loan debt — just to name a few. There is private debt. There is federally held debt (which is often later sold to private companies to manage). It's a big, wide interest-filled world out there.

We have considered addressing other forms of high-interest debt as a cooperative — credit card debt, for example, where it's normal to find interest rates of 20% or higher. For a long time, we decided against it in order to keep our messaging clear and our community centered on the issue of student debt. Better, we reasoned, to do one thing well before tackling other debt.

We do address credit card debt with members on an individual level, when assisting them to manage their financial situation holistically. This has typically taken the form of mentorship to members with student debt to help them strategize about best ways to tackle their credit card debt before refinancing their student loans. We have chosen not to actually refinance any debt other than student loans for the foreseeable future.

But we are currently embarking on a new endeavor with our co-op to bring access to capitol to the just transition to a climate stable future. And that will involve actually issuing new loans, not just refinancing loans already made. Which begs the question: What does good debt look like?



There's a circular relationship between equity, debt, and financing. Having an expanded mental model around what debt is and what it accomplishes is important because people get hung up on it being a bad thing. Debt is a symbol of unaddressed power dynamics in our financial and cultural systems. Simultaneously, as communities start thinking about addressing debt, we need to consider what relationships look like. The building blocks of the "New Economy" are found in issuing credit to one another, and retaking our collective power in doing that.

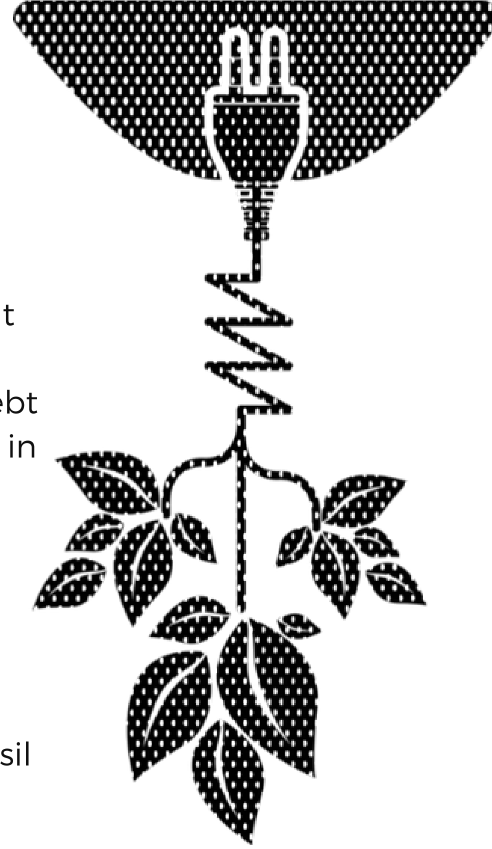
"The building blocks of the "New Economy" are found in issuing credit to one another, and retaking our collective power in doing that."

To this end, we can envision applying the SSCoFi model to any number of activities in creative ways, from funding the start of a new business, to addressing other forms of traditional debt, such as credit cards, mortgage debt, prison debt, and medical debt.

Some of these forms of debt have limitations and must be considered. Where would we not want to use this model? With certain medical and mortgage debt, borrowers have more ways to resist than they do with student debt, which is why we chose this model for SSCoFi.

The other element of this is the relationship between the community's capacity to ***create capital*** versus the amount of capital that needs to be financed or refinanced. Concepts like "Solutionary Rail" (mass electrification of the U.S. rail system) or creating a just transition for coal miners require hundreds of millions of dollars. We would need other strategies to find the capital and resources to achieve these goals. We believe the community lending model is a good tool for local or regional initiatives with financing needs below the $10 million mark.

By keeping it small, we build relational power.



SUPPORTING THE JUST ENERGY TRANSITION
THE KICKING GAS CAMPAIGN

Much of Salish Sea Cooperative Finance's work has been about relieving the debt burden from individuals in an extractive, inhumane system. And yet, as we've discussed—it's not that debt in and of itself is not inherently bad. We all lean on each other in different ways. The building blocks of the "New Economy" are simple acts. Neighborly acts. I borrow a cup of sugar from you. Later, I bring you a slice of the cake. Together we feast.

We're now in the early stages of applying our model to a campaign on Whidbey Island in Washington to install heat pumps—a technology for heating homes that doesn't burn fossil fuels—into residential homes.

Salish Sea Cooperative Finance is a key partner in the **Kicking Gas Campaign**—a nine-month push to help 100 homes on South Whidbey make the switch to clean, comfortable electric heating and cooling.

Awarded a $1 million grant from WSU's Community Energy Efficiency Program, Kicking Gas offers South Whidbey residents buy-down subsidies of 20-50% of their total project cost, as well as dedicated support and financing options through Salish Sea Cooperative Finance.

The co-op will finance (low interest loans) and buy-down grants on a sliding scale for income-qualified clients, making them accessible to rural communities who are not being served by state programs. It will also manage a local "carbon offset fund" that captures donations toward decarbonization activities. The co-op will provide relationship-based financial coaching (by showing each client how to combine tax credits, utility incentives, buy down grants and/or loans) to eliminate financial obstacles to retrofits. It is because of years of work cultivating our approach that our co-op is ready to take the next step, to bring more value to our local community, and leave no one behind in the green transition. Learn more at https://www.kickgasnow.org.

Kicking Gas

CONCLUSION

Debt is a psychological weight that shifts the imagination from thoughts of *possibility* and *empowerment* to thoughts of *crisis* and *necessity*.

Our modern capitalist system is meant to perpetuate those thoughts and push individuals to think of themselves first above all else. After almost a decade of work, the team at SSCoFi has sought to challenge the underpinnings of this framework and to imagine a different world: one where communities of mutual support lift each other up.

We started as a group of organizers meeting around shared plates at potlucks wondering how we could do something, anything, to help tackle the student debt crisis all around us. Along the way, we also became friends who have supported each other through challenging life changes. We also became knowledgeable about building and running a community lending organization. That learning continues and our process around how best to do this work is ever-evolving. Our lending, and this guidebook, was the result of pushing through more false starts and dead ends than we can remember. It hasn't been easy — but it has been humane, which is to say, human-scale and relationship centered.

We taught each other, and sought help from experts for the big stuff. If a bunch of randos meeting around a plate of tater tots every other week can figure out how to make this work, you can too.

We hope you have found this document useful and empowering in whatever efforts you are part of to make our world more sustainable, just, and humane. More than anything, we hope you come away with the belief that you can take action in your community to address the systemic and entrenched issues around you.

We believe there is another way, one where the resources of the community are used not for the gain of the few but the needs of the many. Our work has shown us how a community can come together around a cause and a vision to make great things happen. It doesn't happen all at once. It happens step by step. Thank you for walking with us.

Yours in Solidarity,
Salish Sea Cooperative Finance

Our work began by asking the question: ***In a world without extractive student loans, what would be possible?***

Maybe some of us would show up for city council meetings to fight for black lives. Others would garden more. Perhaps we would all have more spare income to support our neighbors through crises like the COVID pandemic. Would we have more small businesses owned by millennials? Spend more time with our kids? Could more of our lawyers afford to go into environmental law or social justice?

The building blocks of the “New Economy” are simple acts. Neighborly acts. I borrow a cup of sugar from you. Later, I bring you a slice of the cake. Together we feast. Gratitude brings forth abundance. Reciprocity is the economy of trust and of care.

This is a guidebook, and a living document about how to build a co-operative that can issue credit to its members and in doing so, grow our collective power, and our ability to self determine and make choices in the best interest of community health and wellbeing.

It doesn't happen all at once. It happens step by step. It happens together.

Thank you for walking with us.

WE GOT THIS.

Salish Sea
Cooperative Finance

WWW.SALISHSEAFINANCE.COOP/GUIDEBOOK