SUSTAINING CAPITAL

A COMMUNITY CAPITAL COOPERATIVE MODEL

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Introduction

Small is Beautiful

Limitations are becoming apparent on the planetary supply of readily accessible fossil fuels and, more importantly, on the Earth's ability to process pollution and waste (think greenhouse gases). We have likely already caused irreparable damage to the planet and have little time to make the dramatic shifts required to avoid catastrophe. But there is hope. By planning carefully the needed transition to sustainable practices, and focusing efforts on key economic sectors like food, energy, manufacturing, and capital, we can avoid the worst scenarios, and the transition process can even enhance our communities' social and cultural connectedness.

Organizations have sprouted up throughout the world supporting the re-localization of community economies. (Prominent U.S. examples are the Business Alliance for Local Living Economies [BALLE], the American Independent Business Alliance [AMIBA], and the Relocalization Network.) Educational campaigns in many communities are informing citizens on the economic, environmental, and social benefits of supporting independent, locally-owned businesses in general, and import substitution programs for key sectors in particular. Recent studies have shown the significant positive economic impact of frequenting local business establishments, with a 58% "recirculation premium" for locally-owned businesses versus their national or international counterparts. This impact is especially significant in the local services sector, where a 90% economic recirculation premium results.[1]

In addition, creating the means for providing necessities locally, like sustainable food and energy production, will provide community security beyond the positive economic impact. For example, Sonoma County is a rich agricultural area whose environmental conditions allow the production of a broad spectrum of foods for the local population. As the global economy has picked up, and with it the demand for luxury goods, the wine industry in Sonoma County has grown to meet the public's seemingly unquenchable thirst. Our economy has become increasingly dependent on the wine industry in a pattern eerily reminiscent of the shift to basic commodity production (under the banner of "comparative advantage") that led to catastrophic financial and social problems in the Global South in the 80's and 90's. Economic diversity, especially in industries required for general well-being, helps secure the livelihood of the community as well as stimulating the economy.

Sonoma County GoLocal Cooperative

To support the transition to a more localized economy in Sonoma County and elsewhere, the Livability Project, the Relocalizers, and CreativExchanges[2] are collaborating to transform the Sonoma County BALLE chapter into the Sonoma County GoLocal Cooperative, a hybrid business marketing and consumer cooperative that will serve as the foundation for launching the Sustaining Capital network and the transition to a more sustainable economic paradigm. The GoLocal Cooperative mobilizes local businesses, individuals, non-profits and governments for their mutual support and benefit through collaborative marketing programs, a strong communications web, and a new economic transaction vehicle offering enhanced consumer and business-to-business incentives.

A major component of the GoLocal program is the *Action Card*, a benefit available to all members of the cooperative that provides loyalty rewards to patrons of participating businesses. CreativExchanges will provide the model, technological infrastructure and requisite support for the Action Card program. Once in service, the program will be

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[1] Civic Economics, "The San Francisco Retail Diversity Study," May 2007. www.CivicEconomics.com/sf

[2] See Appendix 2 for biographical and contact information for partnering organizations.

expanded into a full-fledged cooperative of its own providing complete credit and capital services to businesses and citizens, as explained in the next section.

From Credit Union to Capital Cooperative

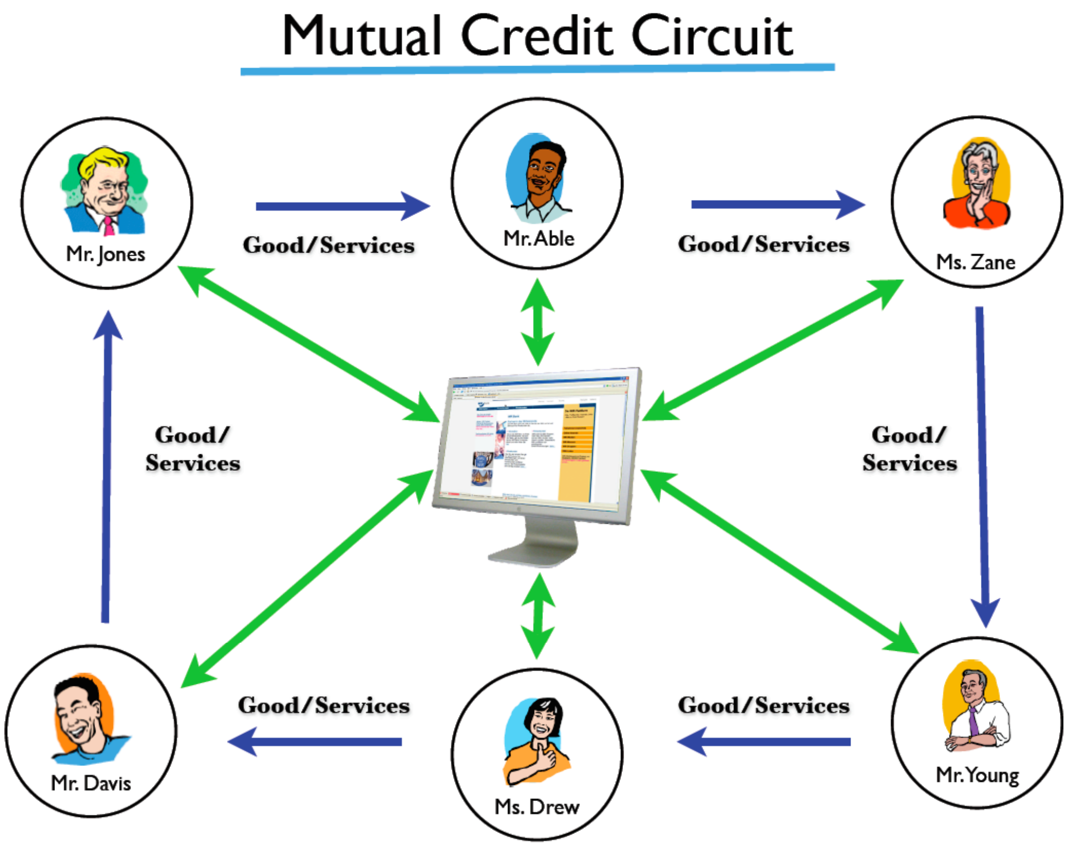
The GoLocal Cooperative, working from its foundation of business and citizen members, will spawn what could be termed the next-generation credit union: the Sustaining Capital Cooperative (henceforth "SCC"). Like most credit unions in the United States, the SCC will be owned by and operated for the benefit of the members, each member having a single vote in governance matters. But unlike traditional cooperative credit unions, the SCC will provide expanded capital services composed of the Sustaining Exchange Market, Sustaining Savings & Loan, and a Sustaining Equity program that will provide equity financing for local businesses.

While traditional credit unions have been relatively effective at providing their members competitive interest rates on deposits and low borrowing costs in comparison to private banks, they still suffer from the same problem as other lending institutions whose income is generated by interest spreads. The interest paid to depositors is mostly generated from the interest received on loans from borrowers, with an extra "spread" taken from the borrowers to finance the cost of operations. The result is a transfer of wealth from net capital consumers, who are often trying to make personal or businesses investments to build wealth, to savers holding an excess of capital, who typically already have some accumulated wealth.

The Sustaining Savings & Loan, while very similar in function to traditional credit unions, will avoid the use of interest on all loans and deposits. Instead, a point system will be used to encourage members to maintain deposits, and a mandatory savings program for borrowers will funnel funds directly into the borrower's personal savings that conventionally would have been paid to the institution as interest. This model is much more likely to generate widespread and equitable wealth building than the current interest-based system, that by its design transfers wealth from net consumers (the majority) to savers with an excess of capital (the minority). (See the Sustaining Savings & Loan section for more details and Appendix 1 for a loan example.)

Overall, the SCC will function as the financial infrastructure facilitating the transition to a more resilient and sustainable local economy. The following sections will describe in detail the main components of the program: The Sustaining Exchange Market for day-to-day commerce, the Sustaining Savings & Loan program for interest-free debt financing, and the Sustaining Equity program that provides both equity financing for local businesses and an investment opportunity for individuals.

Sustaining Exchange Market



Mutual Credit Basics

A strong system of mutual credit should be the foundation for a local capital program. A mutual credit system is defined as an alliance of traders who together create and use their own medium of exchange.[3] The value of that medium or "unit" will be based solely on participants' trust that their contributions to the welfare of their fellow members will be reciprocated at some future time – that is, that they will be able to regain the value of the goods/services they have sold "on credit." The proposal below outlines a LETS-type mutual credit program with additional features that will make it more attractive to business participants (LETS = Local Exchange and Trading System). System transactions take the form of debits and credits that are spent and received into existence when the members trade with each other. Trades are logged and member balances are tracked. The system maintains a constant equilibrium, with all debits offset by credits and vice-versa.

While the U.S. dollar is based on credit created and controlled by private banks, a community-based mutual credit system that requires no national currency puts control of the lifeblood of the economy in the hands of the community. Members of the system are able to create the units of value they need to conduct business, limited only by the amount of credit they are willing and able to accept for their own sales. This credit-generation process creates a safety net for

[3] Greco, Thomas. *Money: Understanding and Creating Alternatives to Legal Tender. Pg* 137

economic crises like the one we are experiencing today by maintaining liquidity in the local economic system, even as liquidity tightens in the national economy. During economic boom times as well, a mutual credit system can enhance the local economy by providing low-cost financing for operations and increased market power for participants, as the units in the system can only be spent locally at participating businesses.[4]

In addition to creating an interest-free medium of exchange, a mutual credit system can be expanded to provide long-term capital solutions that support the value of our community credit over time and enhance the transactional market in the short term. A currency unit needs to circulate constantly and rapidly to be an effective exchange medium. In a credit-based system, this circulation process is actually enhanced by the store-of-value function, as the typical "place" of storage is an investment either through a depository institution or equity markets. The funds invested are then recycled into the transactional market by the recipient to acquire goods and services. This buttresses the transactional market by increasing circulation immediately, and by creating an incentive for the investment recipient to bring value to the market in the future to recoup the credit needed to pay off investors. More on what a long-term financing program might look like will be discussed in later sections.

Sustaining Exchange Market

The transactional market where everyday commerce takes place is the heart of the local economy, and the medium of exchange is its lifeblood. Together they create the means for businesses, governments, and non-profits to find the goods and services they need to operate, and for citizens to connect with these entities and each other to find what they require for their livelihood. Citizens typically pay with dollar earnings from employment, or with loans through credit cards. The short-term assets that businesses typically use for this purpose (including cash, accounts payable, and very short-term bank credit) are known as *working capital*. Governments use dollars from tax revenues and debt issues for payment, and non-profits use donated or borrowed cash. The Sustaining Capital model provides solutions for all the above groups and their typical exchange patterns.

If businesses are provided a convenient way to manage working capital, many transactions can be conducted in the local economy without use of interest-burdened national currency. To gain widespread implementation of the program, it must provide tangible benefits to business participants without interrupting the normal flow of their commerce. Benefits to business participants include:

- ✓ Low-cost, interest-free access to short-term credit (2-3 months).
- ✓ Continual credit availability regardless of the condition of the national economy.
- ✓ Web-based centralized processing of invoices and payments.
- ✓ Credit history evaluation and certification services.
- ✓ E-Commerce, business marketing, and social networking services through the web portal.
- ✓ Marketing benefits from membership in an exclusive business/consumer credit network.
- ✓ Integration with Point of Sale (POS) and bookkeeping software.

Ease of use and integration into existing business and technology systems are critical for widespread adoption of the network. Members need to be able to utilize the credit in any economic setting they choose, whether at a brick-and-

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4 As other such systems are implemented, networks may be developed that allow for transactions across local boundaries. This optimization may be seen as the next logical stage of community-based exchange media development.

mortar location or through the web, and via electronic payment or cash. SCC's initial focus will be the more technical process of setting up the web-based transaction processing infrastructure, with "physical" currency to follow.

Individuals will play an important role in the widespread adoption of our regional credit as a medium of exchange with their willingness to accept it as a portion of their income, and by cycling the credit back into the network as the ultimate end users of the goods and services provided by business, government, and non-profit members. In the process, individuals will gain access to short-term, interest-free credit rather than resorting to high-interest credit cards.

The two main avenues for individuals to obtain network credit are the enterprises they work for and the stores where they shop. Payroll is typically one of the largest expenses for businesses, governments, and non-profits, and is one of the main expenses that could potentially be met using our regional credit, as most of those employees live and shop locally. Giving employees the ability to draw on the portion of an enterprise's short-term credit earmarked for payroll expense will grant them access to interest-free liquidity when unexpected expenses arise. In addition, individuals (and enterprises as well) can build up credit by participating in a regional business loyalty program, where they earn credit as a reward for patronizing member businesses. This *Action Card* loyalty program and its potential catalytic role for the Sustaining Capital plan are discussed in detail in the next section.

Local governments stand to benefit significantly from the liquidity the Sustaining Capital program can provide. In exchange for their willingness to accept network credit for a portion of the taxes and fees that they collect from their constituents, municipalities would earn the right to credit that can be used to pay their employees and local contractors, or to buy the goods and services they need from local businesses. The strength of their legal taxing authority gives local governments a permanency that may afford them a larger amount of credit than the other participants in the network, allowing them to maintain municipal services and infrastructure servicing during budget shortfalls. The extra liquidity provided by Sustaining Capital to our regional economy would also serve to smooth business cycles (and therefore tax receipts), reducing the number and severity of budget shortfalls that local governments would face in the first place.

As a group, local governments are the largest employer in the county and enjoy significant institutional credibility. Their support for the development and implementation of a Sonoma County regional credit network would powerfully catalyze public acceptance and participation. It would also demonstrate to their constituents that, as public servants, the governments will do whatever it takes to make our county prosperous -- even if the solutions are found outside the mainstream discourse.

Enterprising non-profits willing to accept donations of regional credit can also benefit from joining the Sustaining Capital program. The credit they obtain could be used to purchase supplies or services from participating businesses, or to pay their local employees. And if local governments are participating, non-profits willing to accept regional credit may have an easier time getting public funding to support social programs. Also, mechanisms can be implemented that make it easy for people to donate time or credit to member non-profits, providing them with a potentially larger, more stable source of local funding. One such mechanism is the *Action Card*, which allows card users to assign all or a portion of their rewards credit to non-profit, schools, and churches in the community.

GoLocal Action Card

Citizens will be involved initially through the *Action Card* program mentioned above, which builds on the popularity of reward card programs at grocery stores and other retail outlets. GoLocal Cooperative members will be issued an *Action Card* with a number that can be entered into a secure web page, or a magnetic stripe that can be swiped, when shopping at member businesses. Merchants commit to returning a small percentage of transaction income to the members in the form of "loyalty points" that can be re-spent at any participating business. Businesses will be required to accept loyalty points without restriction, but are only responsible for any loyalty points resulting from transactions at their establishment. Businesses accepting excess loyalty points -- that is, more than they have issued themselves -- can use them for business-to-business (B2B) purchases inside the network, and a settlement mechanism will periodically zero out the balances between businesses, either through brokered trade or cash payments.

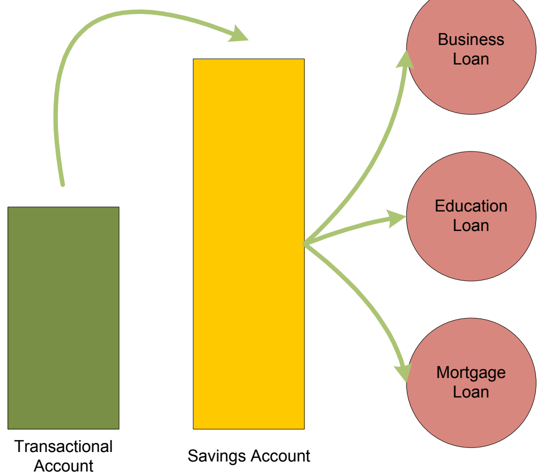
It is important to note how the loyalty point system differs from a discount program. Businesses participating in a discount program incur an immediate loss on transactions in the amount of the discount. In addition, customers receiving the discount can take the money saved and spend it at Wal-Mart or some other chain. As part of the loyalty point program, businesses issuing rewards credit still receive the full purchase price and only have to redeem the points as members spend them at their establishment or as balances are settled in cash -- effectively receiving free short-term financing. Because the loyalty points can only be used at member businesses, members cannot take their rebates elsewhere. This will effectively close the value loop connecting businesses and citizens in a self-sustaining cycle of mutual benefit.

The Action Card will then be expanded to function as a gift card that can be loaded with "value" in exchange for U.S. dollars, which will be internalized into network credit. In a fashion similar to the loyalty points, businesses that load credit onto a member's Action Card will be responsible for redeeming that credit either through trade or settlement. Businesses holding excess loyalty points or gift card credit are then able to receive the value they are entitled to through any combination of the following:

- ✓ Participate in B2B transactions with other business members.
- ✓ Reload the credit back onto Action Cards in exchange for U.S. dollars, or use it to meet their loyalty point obligations to members.
- ✓ Receive U.S. dollars from businesses with negative balances at the end of the settlement period. (This process will become progressively less necessary as the first two mechanisms become more effective.)

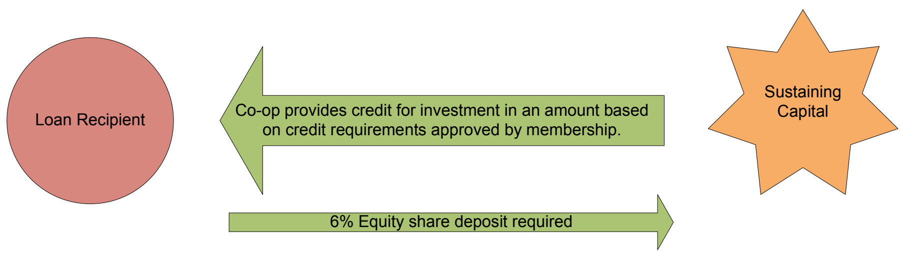
Sustaining Savings & Loan

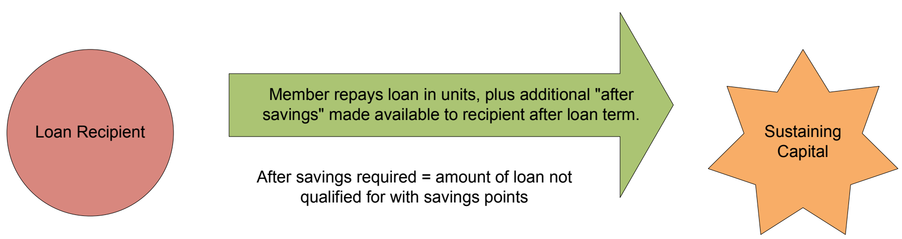
Savings and Loan
(Based on JAK Bank)

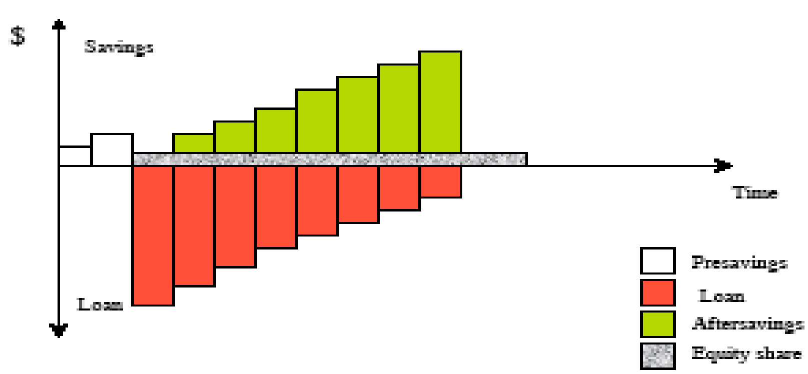


Members earn "savings points" based on the amount and length of deposit.

Savings points qualify members for collateral-free loans.







The Long-term Financing Imperative

The normal course of life and business brings about long-term capital needs separate from day-to-day transactions. Examples are buying a home and starting or expanding a business. The capital outlay for these long-term uses tends to require more credit than a typical business or citizen can generate in a 2-3 month period, which rules out the Sustaining Exchange Market as a viable source for this funding. Typically, a business will finance capital expenditures through operations, debt financing, or equity financing. Citizens tend to finance their education and real estate purchases with debt, although ultimately the financing depends on the intended use and their financial status. The Sustaining Capital model offers solutions for both debt and equity financing that synergize with and support the smooth functioning of the Sustaining Exchange Market, while at the same time avoiding the pitfalls of usury and financialism that plague the national and global economy. The next section will describe the functioning of the Sustaining Savings & Loan program (pictured above), and the following one will present the Sustaining Equity program (pictured below).

The Interest Plague

Besides the problem of interest spreads putting net capital users at a disadvantage, the interest charged on the loans that compose the majority of our money supply also threatens the continued viability of our economic system, our planet, and ultimately our species. When a loan is made, the debtor is required to repay both the loan and an amount of interest that was not created when the loan was issued. The only way to obtain the extra money required for interest payments is to draw it from the general money supply, in essence taking away the ability of one or more other debtors to repay even the principal amount of their obligation. On a system-wide level, new debt money must be continuously lent into existence to service the interest on existing debt money, creating a compounding debt burden ultimately comprised of more accrued interest than principal. Furthermore, the need to obtain currency to service and repay the growing debt load creates a growth imperative in the economy that is driving us to war over diminishing resources and toward a number of potential environmental catastrophes. We must move beyond the interest paradigm if we are to create our vision of a thriving economy and community. (See *Money as Debt* by Canadian videographer Paul Grignon, available free online, for an accessible discussion of problems issuing from the interest-burdened monetary system.)

Unfortunately, compensation in the form of interest has become a mainstay in our economic system. Bank customers expect a rate of return on deposits, which has limited the success (at least in the U.S.) of movements like Islamic banking that shun the use of interest (usury) for religious or moral reasons. No-interest, low-cost loans are appealing, but with no interest incentive to hold money in a deposit account, loan customers will keep their deposits earning interest at an interest-granting financial institution until they need a loan. However, the JAK Bank, an interest-free savings & loan in Sweden with growing membership and deposits, has developed a system to deal with issues of compensation and liquidity that can be adapted for use in the Sustaining Savings & Loan program. The two main concepts, *savings points* and *aftersavings,* are explained below. A detailed example of how a JAK Bank loan works is provided in Appendix 1.[5]

Sustaining Savings & Loan

The Sustaining Savings & Loan program (SS&L) will grow organically out of the Sustaining Exchange Market as the number of participants and volume of exchange grows. Some businesses will be flush with excess short-term credit; others will need long-term credit for capital investment to support future operations. Similarly, some citizens would

[5] All information on the JAK Bank was obtained from a report by Mark Anielski of Anielski Management Inc. that was prepared for Van City Capital Corp. to assess the possibility of adopting a similar model in North America.

like to save value earned to be used later in life; conversely, others would like to make immediate investments in their education or a home. The Sustaining Savings & Loan program provides an equitable and low-cost way to efficiently allocate capital where it is needed, and provide members a way to store credit that supports future value creation. The value being saved and lent will be the credit created by the network in the Sustaining Exchange Market, and the ability to "roll" this credit into a long-term savings vehicle will help maintain balance and increase circulation velocity.

SS&L loans are composed of two separate components: a base loan amount determined by accrued savings points, and a member-part that requires 100% collateral and an analysis of the borrower's ability to pay. Savings points are earned based on the amount of credit deposited, the length of time, and the liquidity of the deposit account. Like certificates of deposit, longer-term savings accounts with time restrictions on withdrawals can provide depositors with a larger number of savings points over a given period of time, and can ensure liquidity for use by other members. Accrued savings points earn members the right to collateral-free loans, the size of which is periodically determined by the Board of Trustees based on the current solvency of the program.

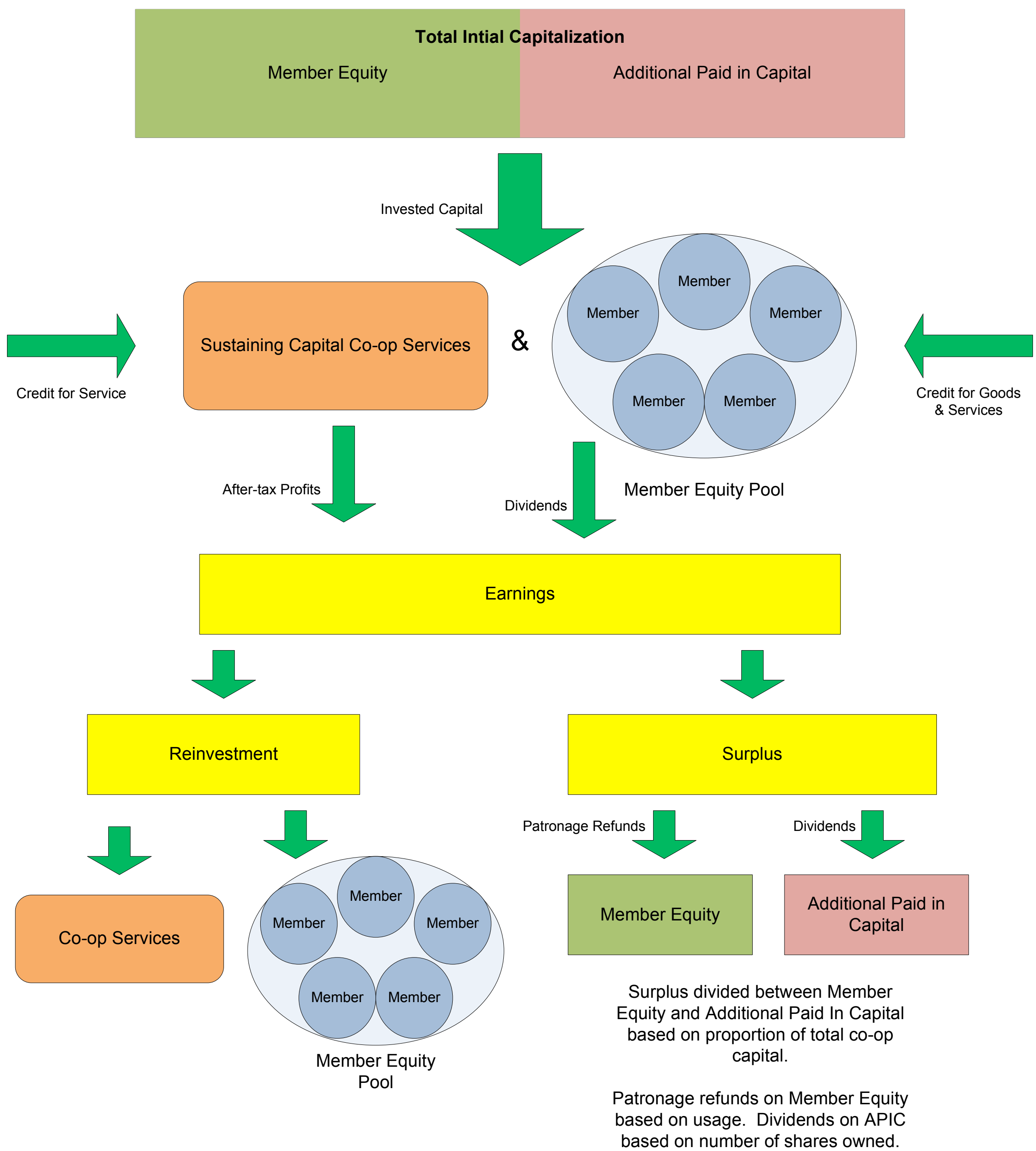
Members may receive loans that are larger than the amount earned through savings. (In special cases, members may be granted loans without any savings whatsoever.) Besides providing collateral and fulfilling certain repayment assurance requirements, members have to pay an *aftersavings* amount amortized over the life of the loan that is equal to the amount of the member-part not secured by savings points. For example, a member who receives a member-part loan of $10,000 for two years would be required to pay $833.33 per month to repay the loan and the same amount again for aftersavings. Once the member-part of the loan is fully secured halfway through the loan-term (accrued aftersavings equals remaining loan balance), the member can begin to withdraw the excess aftersavings each month.

The savings point/aftersaving system is ingenious in two ways. First, it creates an incentive structure that encourages members to save without receiving interest on deposits, which eliminates the bank's need to create a profit spread by charging interest on loans. Second, because the need to charge interest on loans is removed, extra monthly payments can instead accrue to the borrowers themselves. This simultaneously creates a liquidity pool for all members to borrow from, and encourages much-needed personal and business saving. And again: This model serves equitable wealth building much better than the current interest-based system that transfers wealth from borrowers to lenders.

Though interest is not charged on SS&L loans, they are not free. Maintaining efficient operations generates a number of expenses, some of which must be paid with legal tender. A loan fee covering the operating cost of the loan is amortized over its life. While in no way theoretically equivalent to interest, the loan fee can be compared to an effective annual interest rate that gets progressively lower as the loan term is increased. (A major cost of a loan is the origination process, which is the same regardless of the term.) According to the most recent JAK Bank Report, the annual effective interest rate has ranged from 2.03% (30 year loan) to 4.91% (2 year loan) during JAK's 38-year history.

Sustaining Equity

Sustaining Capital Cooperative Structure



Earning a Living Return

While participants with excess short-term credit in the Sustaining Exchange Market may roll it into the Savings & Loan program, only those that expect to need a loan in the foreseeable future will have incentive to do so. For others, especially those saving for retirement, the Sustaining Equity program is an alternative providing a *living return*[6] on invested credit by cycling it back into the SCC and member businesses in the form of equity investment. This equity capital will be especially useful for businesses that do not yet have the cash flow to meet periodic contractual debt payments, such as start-up enterprises that typically rely on credit cards, family, and friends to obtain the capital they need (often at exorbitant interest rates or high personal costs). The Sustaining Equity program creates a connection between member businesses and investors that closes the financial loop at a new level, enhancing the cycle of mutual benefit.

Investors earning a living return on their investments will be expected to monitor and influence the actions of the businesses they own and profit from. This expectation, coupled with the manageable scale of community enterprises, will infuse a new level of democratic participation into our economic system. Investors are rewarded with dividends in the form of exchange market credit that they may spend, deposit in the savings & loan, or reinvest as equity.

The Roadblock to Community Investing

Small businesses have been historically underfunded, while large corporations seem to have no problem raising the capital they need (and some they do not need). The reason for this discrepancy is outdated securities regulations originally created to protect investors from fraud, but effectively forcing most equity investment into the global financial casino. These laws make it practically impossible for anyone not earning $200,000 a year or holding at least $1 million in net worth to invest in a non-publicly-traded community business. Conservatively estimated, $11.5 billion of investable assets exist in Sonoma County, the bulk of which is invested outside the county. A key to developing a strong local economy is finding a way to legally direct some of this capital back into the community and its businesses.[7]

Form for Function

By utilizing the cooperative structure to pool and invest equity, it should be possible to gain exemption from the restrictions of securities regulation.[8] The cooperative/LLC hybrid will offer two share classes. The first is a Member Share that is continually available and must be purchased when one joins the SCC. Members can own only one Member Share, which entitles them to Patronage Refunds in the form of Sustaining Exchange Market credit. The other share type is an Additional Paid-In Capital (APIC) Share that can be purchased by members to earn a living return. Members can own unlimited APIC Shares, but these shares will only be sold in periodic auctions when the SCC needs capital, or through reinvestment of dividends.

Member Shares are available to any individual, enterprise, or government entity that wants to utilize Sustaining Capital's services. Shares are sold and redeemed at par value at the discretion of the SCC, as no liquid market for the shares will exist. Following the standard convention of cooperatives, each Member Share will entitle the holder to

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[6] A living return, as defined by the Business Alliance for Local Living Economy (BALLE), includes "the value derived from enjoying a healthy and vibrant community and sustainable global economy." www.livingeconomies.org

[7] Investable assets include transaction accounts, CDs, savings bonds, bonds, stocks, pooled investment accounts, retirement accounts, and other managed assets. See Appendix 3 for details.

[8] Exemptions from securities registration are still being researched and have yet to be tested in court in this form.

one vote on corporate governance issues regardless of the business size or influence of the member. Holders of Member Shares will periodically elect a Board of Directors to run SCC operations, and will also be encouraged to submit resolutions on issues of import to be considered by the Board and possibly voted on by members at large.

Additional Paid in Capital Shares (APIC) are non-voting shares purchased only to earn a living return on investment. APIC Shares will be auctioned off periodically when the SCC needs more capital or when attractive member equity investment opportunities arise. Shares will be sold using the same auction procedure as for Treasury Bonds, with all winning bids receiving the lowest winning bid price, and will be redeemed at par at the discretion of the SCC. Both Member Shares and APIC shares are automatically repurchased when a member leaves the SCC. Neither share class will have a liquid market, and both will be redeemed only through the SCC.

Proceeds from the sale of both share types will fund the Sustaining Capital Cooperative services, including the Sustaining Exchange Market, Sustaining Savings & Loan, and Sustaining Equity programs. Businesses utilizing Sustaining Equity services for investment capital will be required to pay dividends to the SCC, which will go into the general pool of earnings. A portion of the SCC's earnings, which also include the profits from providing the exchange market and savings & loan services, will be reinvested to increase the SCC's operating capacity. The remaining earnings will be split between the two share classes based on the overall capitalization structure of the SCC, and paid out to members as patronage refunds on Member Shares or dividends on APIC shares.

A Return to Dividends

As noted above, neither share class will be traded on a liquid market, so 100% of the expected return on investment is in dividends and patronage refunds. Besides avoiding confrontation with regulations that limit secondary-market trading , there is a functional reason to prefer dividends over a liquid market. Dividends tie the expected return on investment directly to the cash flow generated by the SCC, not to the speculation that the price of the shares will go up or down in the future. This linkage of expected returns to performance rather than speculation underscores the return to sound economic fundamentals that inspires the whole SCC enterprise.

Dividends on the two share classes will both be in the form of Sustaining Exchange Market credit, but will be allocated based on different criteria. Every member utilizing the SCC's services will receive a "Patronage Refund" based on participation in the Sustaining Exchange Market and the member's utilization of the Sustaining Savings & Loan and Equity programs. Like the members of REI (the well-known outdoor gear cooperative), SCC members will receive a statement at the end of the year showing their usage and the amount of exchange market credit they are entitled to. The total amount of credit that will be made available for patronage refunds will be determined based on the percentage of the total SCC capitalization financed by Member Share equity. For example, if one third of the SCC's total financing results from Member Share purchases, then one third of the surplus earnings will be paid to members in the form of patronage refunds.

Aggregated APIC Shares will receive dividends based on their combined contribution to the SCC's capital structure, with investors receiving dividends based on their individual percentage ownership. Since a large portion of the SCC's earnings may be composed of dividends from the Sustaining Equity program investment pool, the APIC Shares will function like a local investment fund in a roundabout way. It is important to remember that investors will be purchasing shares in the SCC, which only uses a portion of the investment for the Sustaining Equity program. Therefore, returns from the equity pool may be helped or hurt by the performance of the SCC's other programs and services.

Conclusion

The majority of this document was written in the spring and early summer of 2008, while the recession was still tame. Since then a full-blown crisis has erupted, freezing the credit markets and halting economic growth around the world. Trillions of dollars of wealth have been destroyed, and trillions more have been used to prop up the house of cards in a Federal Reserve/government response that has been at best haphazard, and at worst a criminal misallocation of public funds. These trillions have done little to thaw the credit markets for anyone but the largest economic players, but have instead been used to concentrate more power in the hands of the private banking cartel and to fund a "restructuring" of our auto industry that will break the labor unions. It is more apparent than ever that our broken, corrupt financial system cannot be depended on to build prosperity for our communities or our planet. Instead of wasting more time and money trying to support the system that is despoiling communities, we should be using our resources to foster alternatives that infuse democracy and sustainability into our economic system.

For many decades, people concerned about the unsustainable, unhealthy aspects of conventional legal tender have been endeavoring to devise smaller-scale, locally controlled systems that will help them meet their communities' needs. Most fail after a short time, owing to design flaws, over-reliance on volunteer labor, or both. Creating not just a regional transactional medium, but a complementary savings program and investment opportunity as well, provides a powerful solution to the problem encountered by practically every complementary monetary system, namely: What can members of the association do with their excess non-dollar earnings? The Sustaining Savings & Loan and Sustaining Equity programs provide a way for successful businesses, for example, to invest their surplus earnings (earnings which they cannot easily spend in the Sustaining Exchange Market) in ways that benefit not only themselves, but all members of the Cooperative at large, by adding robustness and flexibility to the region's economic activity. The flip side is that as members earn credit through their equity investments (or amass credit in their savings accounts), they will have more to spend in the transactional market, thereby increasing its own value-creating potential. This comprehensive design leads us to believe that our Sustaining Capital package will become increasingly attractive and profitable, particularly now as the dominant financial institutions move ever deeper into crisis.

Appendix I

A JAK Bank Example

Savings points can be used as incentive to attract and maintain deposits by using a time multiplier that increases the amount of collateral-free loan money a member can borrow. Loans from JAK Bank are actually composed of two separate loan components, a base loan amount determined by accrued savings points and a member-part that requires 100% collateral and an analysis of the borrower's ability to pay. On one-time deposits, saving points are calculated using this formula.

Savings Points = Deposit x number of Months x Savings Factor

For example, assume that $10,000 was deposited by a business member for 24 months. Using the JAK Bank savings factor at the time of the report on liquid deposits of .7, the formula would be as the following.

10,000 x 24 x 0.7 = 168,000

Now let's assume that the same member wishes to take out a 5-year loan of $10,000. The following formula is used to determine the base loan amount, or the amount available without collateral.

Base Loan = 2 x Savings Points / (Loan Term in Months + 3)

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2 x 168,000 / (60 + 3) = $5,333.33

The remaining $4,666.67 would need to be collateralized by some type of asset, likely some form of property, plant, or equipment that is typically found on a company's balance sheet. Whether the extra member-part of the loan is granted, and how much, is determined case by case, based on the borrower's credit history and ability to pay, as well as the overall liquidity of the bank. Loans are amortized into equal monthly payments over the life of the loan; in this case the monthly payment for the principal amount is $10,000/60 = $166.67 per month.

Instead of making interest payments that accrue to large depositors and shareholders of private banks, members of JAK Bank pay an additional "aftersavings" amount that accrues to their own account during the loan period. The amount of aftersavings a member has to pay is equal to the amount of the loan not secured by savings points. In the example above, the borrower would be required to deposit an extra $77.78 per month ($4,666.67 total), portions of which become available to the borrower once the remaining loan balance has become completely secured by the deposited aftersavings.

Even though interest is not charged on SS&L loans, they are not free. Maintaining efficient operations generates a number of expenses, some of which must be paid with legal tender. A loan fee covering the operating cost of the loan is amortized over its life. While in no way theoretically equivalent to interest, the loan fee can be compared to an effective annual interest rate that gets progressively lower as the loan term is increased. (A major cost of a loan is the origination process, which is the same regardless of the term.) According to the most recent JAK Bank Report, the annual effective interest rate has ranged from 2.03% (30 year loan) to 4.91% (2 year loan) during JAK's 38-year history.

The final requirement for receiving a loan is to deposit 6% of the loan amount that is booked as equity, providing security for the institution. In the above example, the member already had $10,000 on deposit, which is 100% of the loan amount. The member would be required to leave $600 with the bank, which would be held in an equity share account to be released back to the borrower after the completion of the loan term. The bank's equity position is also bolstered by non-refundable annual membership fees, which were around $40 Canadian at the time of the report.

Appendix 2

Contact Information

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Appendix 3

Wealth Estimates for Sonoma County

Sonoma County Household Asset and Debt Estimates

Sonoma County Investable Assets

Number of Households Sonoma County (2000)[1]	172,403
Median Household Income (2004)[1]	53,645

Median Income Level for Sonoma County is in 4th Quintile

	Transaction Accounts	CDs	Savings Bonds	Bonds	Stocks	Pooled Investment Funds	Retirement Accounts	Other Managed Assets
Percentage of Families with Assets[2]	98.4%	14.9%	26.6%	22.0%	28.2%	18.6%	69.7%	7.8%
Median Level Fourth Quintile[2]	$6,600	$18,000	$1,000	$80,000	$10,000	$25,500	$32,000	$35,000
Total per Family[2]	$6,494	$2,682	$266	$17,600	$2,820	$4,743	$22,304	$2,730
Total Sonoma County	$1,119,654,043	$462,384,846	$45,859,198	$3,034,292,800	$486,176,460	$817,707,429	$3,845,276,512	$470,660,190

Grand Total (2004)	$10,282,011,478
Total 2008 (Assuming 3% Growth)	**$11,572,494,503**

[1] U.S. Census Bureau State & County QuickFacts, Sonoma County. http://quickfacts.census.gov/qfd/states/06/06097.html

[2] Recent Changes in U.S. Family Finances: Evidence from the 2001 and 2004 Survey of Consumer Finances. www.federalreserve.gov/ pubs/bulletin/2006/financesurvey.pdf

Derek Huntington ~ June 2008