NCBA CLUSA
The National Cooperative Business Association
CLUSA International

March 12, 2019

Statement before the Small Business Administration
Consideration of the Personal Guarantee for Cooperative Businesses
Doug O'Brien, President and CEO, NCBA CLUSA
March 12, 2019

My name is Kate LaTour with the National Cooperative Business Association, and I would like to read a statement on behalf of our President and CEO, Doug O'Brien. Thank you for this opportunity to share the importance of cooperatives having reasonable access to SBA's programs, including by not requiring individual members of cooperatives to personally guarantee SBA guarantees.

NCBA CLUSA is the apex association for all types of cooperatives in the United States, including food cooperatives, credit unions, and worker cooperatives. There are over 64,000 cooperative and credit union establishments in the U.S. that include in their membership 1 out of every 3 Americans. A cooperative buys and sells products or services just like any other business. The difference is a cooperative is owned and governed by its members, the people who use the business. Profits are reinvested in the co-op or distributed to its members, who live the community in which the business resides. Depending on the business, the co-op could have hundreds or even thousands of members.

1775 Eye Street NW
8th Floor
Washington, DC
20006
(202) 638-6222
info@ncba.coop
www.ncbaclusa.coop

Beyond the profits (or patronage as its known for co-op members), cooperatives provide benefits to their members by increasing access to and/or lowering the cost of goods and services, and creating efficiencies of scale and business sophistication. Beyond these economic benefits, cooperatives provide community benefits as the owners of the businesses are the same people who live in the community. So they tend to keep resources in the community and make business choices that are aligned to the community's values and priorities. Cooperatives are small businesses that are good for communities, and they have also been successful in many sectors.

Cooperatives have gone to scale in sectors such as: agricultural cooperatives that feature many of the biggest food companies in the country like Land O'Lakes, Sunkist, and Ocean Spray; credit unions that serve 115 million consumers across the nation; and rural electric cooperatives that provide electricity to 18 million rural Americans.

Today, there is a tremendous opportunity for people to use the cooperative business model to create small businesses in rural towns and urban neighborhoods. We know that millions of "baby boomers" will look to transition from small business ownership in the next 15 years. According to the Democracy Collaborative, "each year, 150,000 to 300,000 businesses owned at least in part by baby boomers become candidates for employee takeovers as their owners hit

100 YEARS OF COOPERATION
1916 – 2016

retirement age. That means, over the next 15 years, retiring boomers could help create two- to four- million new worker-owned businesses nationwide.” Further, food cooperatives – which have been anchor small business institutions in hundreds of cities and towns – see opportunity to expand, and more and more people are looking to establish new food cooperatives to serve a diverse set of communities. Finally, there is an increasing interest in worker cooperatives – businesses that are owned and controlled by the people that work there. As you well know, Congress clearly indicated its interest in supporting these and other types of cooperatives in the recently passed Main Street Employee Ownership Act. This legislation, which had strong bipartisan support in both the House and the Senate, specifically states Congress’ intent to “expand opportunities to available employee-owned business concerns through SBA’s loan programs,” and directing SBA to ‘encourage and assist the provision of succession planning to small businesses with a focus on transitioning to cooperatives and other employee-owned business structures.

For these cooperatives to establish or grow, they need access to affordable capital. Many times, this means the ability to work with a financial institution that can access a guarantee from SBA. Without relief from the personal guarantee requirement, many of these cooperatives will not be able to establish or grow these local businesses. We understand that SBA needs to balance the potential risk associated with a removal of the personal guarantee requirement. We believe that there are other, more reasonable, ways to manage this risk. For instance, SBA could consider adjusting its equity requirements, with the potential for lower equity requirements in economically distressed areas such as HUB Zones.

We appreciate this opportunity to comment and look forward to working with SBA toward a commonsense solution that will provide more people to start and expand cooperative small businesses.

retirement age. That means, over the next 15 years, retiring boomers could help create two- to four- million new worker-owned businesses nationwide." Further, food cooperatives – which have been anchor small business institutions in hundreds of cities and towns – see opportunity to expand, and more and more people are looking to establish new food cooperatives to serve a diverse set of communities. Finally, there is an increasing interest in worker cooperatives – businesses that are owned and controlled by the people that work there. As you well know, Congress clearly indicated its interest in supporting these and other types of cooperatives in the recently passed Main Street Employee Ownership Act. This legislation, which had strong bipartisan support in both the House and the Senate, specifically states Congress' intent to "expand opportunities to available employee-owned business concerns through SBA's loan programs," and directing SBA to 'encourage and assist the provision of succession planning to small businesses with a focus on transitioning to cooperatives and other employee-owned business structures.

For these cooperatives to establish or grow, they need access to affordable capital. Many times, this means the ability to work with a financial institution that can access a guarantee from SBA. Without relief from the personal guarantee requirement, many of these cooperatives will not be able to establish or grow these local businesses. We understand that SBA needs to balance the potential risk associated with a removal of the personal guarantee requirement. We believe that there are other, more reasonable, ways to manage this risk. For instance, SBA could consider adjusting its equity requirements, with the potential for lower equity requirements in economically distressed areas such as HUB Zones.

We appreciate this opportunity to comment and look forward to working with SBA toward a commonsense solution that will provide more people to start and expand cooperative small businesses.