NCBA CLUSA
The National Cooperative Business Association
CLUSA International

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Good afternoon, my name is Kate LaTour, and I'm with the National Cooperative Business Association. Thank you for the opportunity to provide further comment on the need for the Small Business Administration to ensure reasonable access to SBA's programs for cooperative businesses and identifying practical alternatives to a personal guarantee.

As the cooperative community shared in SBA's first listening session, cooperative businesses are different in a number of ways from conventional sole proprietor businesses. First, cooperative businesses are more resilient than sole proprietor businesses. For example, Prospera, a Latina Economic Development Center in Oakland, California, launched two cooperatives in the wake of the 2008 financial crisis. While California small businesses failures increased by 40 percent at the time, the highest rate of any state in the nation, the two cooperatives served by Prospera experienced steady growth, even during the economy's downturn.

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Professor Erik Olsen at the University of Missouri Kansas City has studied U.S. and foreign cooperatives extensively and has concluded that the challenge of worker cooperatives in the United States is not due to business challenges or survival rates, which have a long history of better business outcomes than sole proprietorships, but rather obstacles to the creation of cooperatives. This is the very reason the SBA should continue to pursue alternatives to the personal guarantee requirement.

While data of scale for worker cooperatives in the United States is not yet fully available, there is significant data on worker cooperatives in the United Kingdom that is relevant to the SBA's work and the need for an alternative to a personal guarantee requirement.

The Cooperative and Community Finance (CCF) is a cooperatively-owned lending institution in the UK that manages the Cooperative Loan Fund and does not require personal guarantees, rather requires varying equity stakes or liens against the assets of the company. Because cooperatives largely are established to meet new or ongoing needs of a community, the terms of financing are flexible. In one example, CCF partnered with a small furniture business in a distressed industrial community with low social mobility. According to CCF, the unsecured loan helped the organization not only develop but grow, and the loan is being repaid primarily through a percentage of sales. One investment manager at CCF summed up why they do not require a personal guarantee on loans and guarantees to cooperatives: "If there is no personal gain, there shouldn't be a personal loss."

CCF data shows that loans to cooperative startups and expansions have defaulted at an average rate of less than three percent over the past 15 years. That compares to other UK startups that reached default rates as high as 50 percent in 2014. Overall, once a cooperative business is formed, it has survival rates that typically exceed that of conventional businesses, and at worst have equal survival rates of conventional firms.

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In addition to the opportunity to providing additional comment, NCBA would also like to thank the SBA for rescheduling the listening session to ensure that the event was more widely accessible to stakeholders, and we look forward to continuing our work with SBA on this important issue.