

LEVELING THE PLAYING FIELD: ACCESS TO COOPERATIVE BUSINESS FINANCING IN SBA 7(A) PROGRAMS

Action Needed: Urge the Small Business Administration or Congress to waive the personal loan guarantee requirement for cooperatives in the 7(a) loan program

ABOUT CO-OPS

Cooperatives are member-owned, democratically governed businesses with each member receiving one vote. There are approximately 65,000 cooperatives with 350 million members-owners in the U.S. operating in every sector of the economy. Over the last decade, the top 100 cooperatives have generated over \$200 billion in revenue annually. People form cooperatives for many reasons including to address market failure, community need or to create competition – regardless of the reason, the very structure of a cooperative requires it to be responsive to its member-owners and in turn the local community.

BARRIERS TO 7(A) LOANS FOR CO-OPS

The U.S. Small Business Administration (SBA) requires individuals who own 20 percent or more of a small business to provide a personal guarantee in its business lending programs, including the 7(a) program. When no one holds more than 20 percent stake, SBA requires 'majority owners' to serve as personal guarantors. While explicitly eligible for these programs co-ops are denied SBA financing because:

- Typically, no single member-owner holds 20 percent or more of the business.
- Member-owners have an equal one-share vote, so no group of owners holds a majority

In 2018, Congress passed the Main Street Employee Ownership Act which required SBA to explore meaningful alternatives to the personal guarantee requirement, however the agency has yet to propose a solution. In May of 2023, the SBA finalized new regulations for its loan programs. The final rule stated the agency will require a personal guarantee from cooperatives "unless otherwise prohibited by law."

OUR ASK: Congress must waive the personal guarantee requirement for cooperatives to provide entrepreneurs, lenders, and retiring business owners with the necessary tools to preserve small businesses.

This waiver would not threaten the security of taxpayer dollars. SBA requires 'all available company assets to be offered as collateral.' Co-ops would still be approved or denied on the basis of ability to repay, business management and credit history. One intended purpose of SBA loan guarantees is to ensure business continuity during change of ownership. According to the SBA, "Loans for this purpose...promote the sound development of the business or, perhaps, in preserving its existence." Almost half of all businesses in the United States are owned by people ages 55 and older. Yet 85 percent of businesses owners have no succession plan in place. To preserve jobs, increase wealth-building opportunity and maintain access to essential goods and services – especially in rural communities and communities of color – conversions to cooperative businesses are the best business solution.

Waiving the personal guarantee requirement is not unprecedented. Recognizing the important contribution of cooperatives to the local economy, Congress included a waiver of the personal guarantee requirement in the CARES Act to ensure co-ops could access Paycheck Protection Program and Economic Injury Disaster Loan Program funds. This action was a critical solution in supporting more than 2,000 co-ops and tens of thousands of jobs. As of 2024, 95% of cooperatives that received SBA assistance due to the personal guarantee waiver are still in existence.

The National Cooperative Business Association (NCBA CLUSA) is the primary voice in the United States for cooperatives across sectors. As a trusted, proven way to do business and build communities, cooperatives play a vital role in creating economic opportunities that empower Americans and people around the world to improve their lives and those of future generations. On behalf of our members, NCBA CLUSA advocates for federal policies that enable people to use cooperative enterprise