Statement to the SBA
Alternatives to the Personal Guarantee Requirement
March 29th, 2019

This is Alex Stone with CooperationWorks!, a national network of cooperative developers that includes 34 co-op development centers and independent professionals who provide technical assistance, training, and support to cooperative businesses.

Located in 29 states, CW members provide these services to every co-op sector and in all 50 states. Between 2008-2017, we created or saved nearly 15,000 jobs, assisted in the incorporation of over 1,000 businesses, and created over 4,000 cooperative housing units.

CW members are well versed in co-op business development, from feasibility and business planning through launch, to providing governance and other TA after start-up. Many CW members specialize in converting existing businesses to worker cooperatives. This succession strategy results in the retention of local businesses that would otherwise close or sell to outside investors.

Loan Guarantee

Cooperative businesses have long sought access to SBA lending programs, but the personal guarantee requirement has kept them from accessing this critical funding. The shared ownership structure of co-ops is directly at odds with a single member taking on ultimate responsibility for the loan. Interestingly, this structure makes employee owned businesses *more* resilient – better able to weather economic downturns, less likely to lay-off workers, and more productive than their traditionally owned counterparts.

The *Main Street Employee Ownership Act* directs the SBA to examine alternatives to the personal guarantee to make 7(a) loans more accessible to coops.

Your concern focuses on how to hold cooperatives accountable without such a guarantee. However, similar loan programs offered to cooperatives with no personal guarantee have resulted in zero or near zero default rates. For example:

1. Resident Owned Communities assists mobile home park residents in cooperatively purchasing and managing the land under their homes. ROC has financed more than 230 communities since 2008 and has zero defaults. The key to their success is in the loan: the loans provide for and require technical assistance for their duration.

2. The Intermediary Lending Pilot Program with the Cooperative Fund of New England resulted in loans to 17 worker co-ops and zero defaults, with 16 of them still operating. Cooperative businesses are incorporated, so financing can hold the corporation liable for the loan.

3. According to the National Center for Employee Ownership, default rates on loans to ESOPs are two per thousand annually, making employee-owned businesses 1/10th as likely to default than the average.

Though the SBA wants "skin in the game" from cooperatives, it's clear that the co-op structure creates plenty of incentive for member-owners to succeed.

We urge you to work with the cooperative community to develop mutually **acceptable** alternatives to the personal guarantee to ensure that cooperatively owned enterprises have fair and equal access to these loans. We suggest the following:

- Loans require and finance technical assistance from approved providers for the duration of the loan.
- Encourage Congress to permanently fund the Intermediary Lending Program.
- Provide more lenient guarantees for co-ops located in HUBzones, food deserts, and for minority and women-owned cooperatives.