

Testimony of R.L. Condra

Vice President of Advocacy and Government Programs

National Cooperative Bank

House Committee on Small Business

Hearing on “Challenges and Benefits of Employee-owned Small Businesses”

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Good morning Chairwoman Velázquez, Ranking Member Chabot and members of the Committee. I am honored to discuss the benefits and challenges of employee-owned businesses. Thank you for bringing this topic out to the light and providing a forum for discussion it so richly deserves.

Today, I will discuss how a prohibitive policy requirement by the Small Business Administration (SBA) is hindering the growth of the cooperative business sector. If this issue is resolved, lending institutions like the one I work for will be able to make loans that will help to grow small businesses, create quality jobs at increased wages, and provide healthy food and grocery options for communities throughout the country.

My employer, the National Cooperative Bank (NCB) is a national commercial bank headquartered in Arlington, Virginia. With \$2.8 billion in total assets, NCB delivers banking and financial services throughout the nation to cooperative organizations complemented by a focus on economic development in low-income communities.

A cooperative is a business that is organized, owned and governed by the people who use its products or services. Those people are called member-owners, and they own the business. They have a voice in its operations through a board of directors that members elect, and the profits from the cooperative flow back to the member-owners. Employee-owned cooperatives, also known as worker cooperatives, give employees an ownership stake in the company in which they work.

Cooperatives have evolved since the 1960's when the SBA recognized them as buying clubs. There are now over 40,000 cooperatives in the US and the top 100 generated \$222 billion in annual revenue in 2018. Some notable cooperatives include REI, ACE Hardware, Ocean Spray, Land O'Lakes, and Congressional Federal Credit Union.

Since the great Recession, worker cooperative numbers have doubled, and have become a business option for young people, women and minorities. According to the 2019 Worker Cooperative Economic Census, 50% of owners of worker co-ops are Latino and African American, and 62% of women make up the majority of the workforce.

Municipalities have also recognized that co-ops are a viable business option, and have taken steps to promote the growth and development of worker cooperatives in cities such as New York, Philadelphia, Madison, Minneapolis and Austin.

Over the past 40 years, NCB has provided loans of more than \$2 billion to cooperative businesses and independent retailers including over \$77 million to consumer-owned food co-ops. Per our loan policies and guidelines, NCB does not require a personal guarantee for consumer and worker-owned co-op loans due to the unique structure of our cooperative borrowers.

In contrast, the SBA requires a personal guarantee from anyone who owns 20% or more of a business, and will not guarantee a loan under the program if there is no such individual. This agency requirement makes it impossible for cooperative businesses to access the agency's lending programs. For decades, the co-op sector has asked the SBA to level the playing field for cooperatives to no avail from the agency.

In 2018, Congress passed the Main Street Employee Ownership Act that directed the SBA to recommend and implement practical alternatives for cooperatives that will satisfy the agency's loan guarantee requirements.

We were greatly disappointed to learn the SBA did not provide practical alternatives as required by law. Instead, the agency relied on its existing requirements that continue to block cooperative businesses from much needed access to capital.

Further, SBA's recommendation regarding an existing business to be sold and converted to an employee-owned cooperative would create new barriers. The agency recommends that a selling business owner provide a full, unlimited personal guarantee for the life of the loan. Imagine a small business owner selling their business to a buyer, but also having to put up their home as a guarantee for the buyer's own loan until it is paid off.

The SBA's guarantee requirement is also contrary to industry practice for cooperatives. As mentioned, my bank does not require a personal guarantee, and CDFI's that specialize in co-op lending do not require one. The Department of Agriculture's Business and Industry loan program does not require a personal guarantee for loans to cooperatives.

In addition, the SBA has shown flexibility with respect to the guarantee in similar situations in the past. Thus, the SBA does not require a personal guarantee when a loan is made to an ESOP business.

The SBA has stated that cooperatives can satisfy the requirement by providing an "entity guarantee" to be the guarantor of the loan. We were recently approved by SBA using an "entity guarantee" for a food cooperative loan in Fredericksburg, Virginia. To my knowledge, this will be the first food cooperative loan in the history of the agency. While we are excited that SBA approved this loan, we have strong concerns that the "entity guarantee" is not a long term solution for cooperative businesses for the following reasons:

- SBA is not prepared for an "entity guarantee" submission with its application process,
- The borrower adds more debt to the loan than is needed,
- The lender adds more risk to the loan than is needed and
- Only wealthy communities with the ability to raise cash will be able to use this process.

I am here today to discuss how the SBA's tax payer funded loan programs should be fair and available to everyone including cooperative businesses. I look forward to answering your questions. Thank you.