

**Testimony of R.L. Condra**

**Senior Vice President of Government Relations**

**National Cooperative Bank**

**House Committee on Small Business**

**Hearing on “Empowering Employee Owned Businesses and Cooperatives Through Access  
to Capital.”**

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Good morning Chairwoman Velázquez, Ranking Member Luetkemeyer and members of the Committee.

I had the honor of testifying on this issue last year and would like to thank the Committee's continuing interest regarding the Small Business Administration's inability to provide cooperative businesses access to its lending programs.

I would also like to thank the Committee for its vision to create a cooperative pilot program that will provide much needed capital and build institutional knowledge of this business model within the agency.

Is there anything more gratifying than becoming a small business owner? During the pandemic, haven't we learned how essential grocery stores are to our communities?

Unfortunately, the SBA, the federal agency that oversees small business assistance and growth continues to block cooperative businesses and their tens of thousands of jobs from being created. To be clear: cooperative businesses should have the same opportunities, service and financial products as other SBA borrowers.

There are over 65,000 cooperatives in the US and the top 100 generated \$226 billion in annual revenue in 2020. Some notable cooperatives include REI, ACE Hardware, Ocean Spray, Land O'Lakes, and Congressional Federal Credit Union. It's not a new concept, Benjamin Franklin founded the first insurance cooperative in America which continues to operate today.

In the last decade, the number of worker cooperatives have doubled, and have become a preferred 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 women make-up 60% of the workforce.

Additionally, over 160 food cooperatives have opened during this time, creating over 4,200 jobs. Last year, start-up food cooperatives have opened in Colorado, Nebraska, Virginia, Ohio, Pennsylvania, and New York. All this progress has occurred without the SBA's assistance.

The SBA has amended its outdated eligibility regulations to include cooperatives but continues to block these businesses from accessing its programs with its own federal version of a Catch-22.

Now technically eligible, co-op businesses must meet the agency's personal guarantee requirement which states that any owner of 20 percent of the business must sign a personal guarantee for a loan. Due to its unique business structure, a co-op is just not able to meet the "check the box" personal guarantee requirement the SBA requires.

For example, if a custodial worker cooperative in New York City is owned equally by 10 women, which owner of 1/10<sup>th</sup> of the business signs the personal guarantee? If a food cooperative has 5,000 member-owners, which customer signs over their house to cover the other 4,999 customers?

A cooperative borrower does have "skin in the game." They raise money through member shares and member loans that should secure financial and equity obligations that lenders require.

In 2018, Congress attempted to level the playing field for cooperatives by passing the “Main Street Employee Ownership Act” championed by Chairwoman Velázquez and Senator Gillibrand.

We were greatly disappointed to learn the SBA did not provide practical alternatives for loans as required by law. Instead, the agency relied on its existing requirements that continue to keep cooperative businesses from much needed access to capital. Essentially, the SBA ignored Congressional direction and the needs of business owners and consumers.

My employer, the National Cooperative Bank, has provided loans of more than \$2 billion to cooperatives and independent retailers including over \$77 million to food cooperatives. Per our loan policies, we do not require a personal guarantee for consumer and worker cooperative loans.

Along with the private sector, there is federal precedent for not requiring personal guarantees to cooperatives. The Department of Agriculture does not require a personal guarantee for loans to cooperatives, but most start-ups are in urban areas. Ironically, even SBA does not require personal guarantees for loans to Employee Stock Ownership Plans, known as ESOPs, that have a similar structure as worker cooperatives.

Why is there a need for a cooperative pilot program?

The sector caught a break when Congress removed the personal guarantee requirement in the CARES Act for all EIDL and PPP business loans, thus giving cooperatives access to federal funding during the pandemic. Although, this Committee had to include specific bill language for cooperative businesses to become eligible for the Covid relief programs.

Using the SBA reported numbers, the National Cooperative Business Association estimates that over 2,500 cooperatives received Covid relief loans totaling \$1.2 billion in funding that saved over 93,000 jobs.

Chairwoman Velázquez, let me personally thank you and the Committee for helping these businesses and workers during one of the most difficult times of our country. Please be aware that the same cooperative businesses that received covid relief funding are not able to access the SBA’s existing loan programs.

Especially in Black and Brown communities, entrepreneurs are turning to the cooperative model as an opportunity to own a business or meet the grocery needs in their neighborhoods, many of which are food deserts.

In 2015, Pastor Reginald Flynn of Flint, Michigan, wanted to start a food cooperative due to the grocery chain closures in his community. Pastor Flynn was unable to obtain financial support from the SBA. Six years later, he has raised \$7.6 million and now has over 900 member-owners. With the help of a \$1.25 million grant from the state of Michigan, the food cooperative has finally started to break ground.

This is a success story on resilience and commitment to a community, but truth be told, access to an SBA loan would have allowed them to break ground years earlier. No small business should have to wait six years to achieve their dream.

I look forward to answering your questions. Thank you.