

Comments on Affiliation and Lending Criteria for the SBA Business Loan Programs

December 2022

On behalf of _____, we are writing to express our concern that the Small Business Administration Regulation updates to not include a solution that allows the underserved worker ownership sector to access the vital benefits that the Administration offers to all other small businesses.

Worker co-ops are the fastest growing sector of worker cooperatives in the country. Worker cooperatives, and are an increasingly recognized solution to economic challenges. They strengthen companies, reward workers, and prevent job loss in the case of converted businesses. Over the next decade, converting businesses could avert massive job losses in the succession crisis for the 2.34 million businesses that are currently owned by baby boomers, imminently facing closure or sale.

At its core, worker ownership means that more people are committed to the strength and longevity of the businesses. Worker co-ops are typically small and strong businesses, typically employing 8 workers, and paying an average of \$19.67/hour often in insecure industries like retail, manufacturing, food service, home care and childcare. These businesses last longer, with a 25.6% success rate for businesses 6-10 years old, compared to the 18.7% success rate of typical small businesses.

Worker cooperatives need access to the full range of the SBA's tools to foster and create stable, high-retention jobs that empower workers and provide workplace flexibility. Programs like the 7(a) loan program are a vital piece of accelerating the already rapid growth of worker co-ops.

The personal guarantee requirement of SBA 7(a) loans makes these loans virtually impossible for worker cooperatives to access. While we understand it is necessary to ensure that loans are sound, the requirement that anyone owning more than 20% of a business must guarantee the loan with their personal assets is out of sync with broad-based ownership models. In many cases, there is no owner with more than 20% ownership of the business, and a personal guarantee becomes impractical when there are potentially hundreds of owners. This particularly affects historically undercapitalized low-income and communities of color, making their long-term success difficult despite having wide support.

We believe that a main issue here is lack of familiarity with worker co-op and ESOP models. Private funders and states that have made loans available to co-ops without personal guarantees have reported minimal losses. Funders and service providers are unfamiliar with the model, resulting in lack of access - worker co-ops simply need the same access to the resources available to all small businesses. Congress has already expressed its support for employee ownership - we want to see the spirit of the MSEOA fulfilled, and for the Administration to follow through on its mandates: to provide education and outreach regarding employee ownership, and to create a workable solution for cooperatives to access SBA programs.

On behalf of the worker co-op business community, we thank the Small Business Administration for their attention to this issue. We look forward to working with you to ensure a prosperous future for our small businesses and workers across the United States.