

# Cooperatives Cross Major Hurdle with Small Business Administration

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**P**eople starting many types of businesses in the U.S. use the support system and loan programs of the Small Business Administration (SBA) to help them get established. The agency, founded in 1953, has had massive growth and shifts in services available during the following decades, but always declined to support “consumer and marketing cooperatives.” As of September 20, 2017, the SBA has amended its regulations and dropped that exclusion: cooperative business models, including consumer, worker, and marketing co-ops that meet size standards and other regulations, will be eligible to apply for SBA loans.

The cooperative community has been lobbying the SBA to open its doors to our business models for many years. Those early efforts helped people like R.L. Condra, vice president of advocacy and government programs for National Cooperative Bank, with peers from other cooperative support agencies, move the discussion to a breakthrough this year. This involved ongoing talks with legislators, SBA officials, getting testimonials, and mailing campaigns from co-ops seeking SBA loan access.

“We have turned a corner with the SBA,” Condra states. “This change removes an important hurdle cooperatives faced in obtaining SBA loans.” The simple change—removing the co-op exclusion from eligibility for SBA loan programs—helps create new funding opportunities for co-ops.

## The next hurdle: loan guaranties

Don’t rush to get your loan application in just yet. The change in eligibility by type of business, described above, does not alter any other requirements for obtaining an SBA loan. There is another regulation that is not yet friendly to cooperatives: the requirement of a personal guaranty. That requirement may be reasonable for an applicant with a small group of investors or owners, but nearly impossible to provide for a co-op with hundreds of owners. The SBA feels that it would create inequity for all other loan applicants if the same requirements for guaranty do not apply to co-ops.

There may be ways to navigate around this hurdle. Currently, SBA allows for another entity to provide the required loan guaranty in lieu of a personal guaranty from an individual. Cooperative support groups are looking at ways cooperatives can use an existing entity, or create one that could be used to support the guaranty. The groups who lobbied for the eligibility changes are focusing on this, and expect to see some test models come forward. Lending institutions that work with the SBA are used to this entity model, and may prove helpful in working around the individual guaranty rule. Expect to see some news on options over the next year.

## What can SBA do for your co-op?

Stuart Reid, Food Co-op Initiative’s (FCI) executive director, suggests, “This is a great new opportunity, and we encourage any

co-op looking for startup capital to visit [sba.gov](http://sba.gov) to find out if they are eligible to use SBA programs. We want the SBA to know co-ops are out there making a difference.” The SBA website is not yet updated with the co-op inclusion changes, but other requirements include business size and background information are current.

**Loans:** While applying for an SBA loan may not be a clear option for you now, you should still consider talking about it with your lenders. SBA loans are granted through lenders, not directly, and those lenders are familiar with the existing rules and regulations. It is likely that you will find a cooperative lender more on top of the changes for co-ops, but some conventional lenders may also be aware of this. This may be especially true if you are looking at loans for real estate acquisition or development. Alternative guaranty entities might be more easily identified in those transactions.

**Non-loan resources:** The SBA is involved in all aspects of business development, not just loans. Many of their resources are targeted at conventional business, but some will be just as useful for cooperatives. These are aimed at SBA eligible businesses, but should be useful even if you do not qualify for other reasons. Check out the SBA Business Guide at [sba.gov](http://sba.gov) for ideas—here are a few titles that many co-ops could make use of:

- Register your business
- Get federal and state tax ID numbers
- Hire and manage employees
- Pay taxes
- Marketing and sales
- Prepare for emergencies

In many areas, SBA local assistance centers can answer your questions about state regulations for businesses, and help you navigate your local requirements.

## Staying current with SBA changes

Work on finding clear ways to handle the personal guaranty issues facing cooperatives continues on several fronts. Groups who have lead the lobbying efforts that brought us over this first hurdle will still be in discussions with the SBA. Other cooperative support organizations are exploring ways to use other entities to fill that need.

The inclusion of cooperatives in the SBA loan programs is too new for us to have clear answers, but we encourage you to stay in touch with co-op developers presently supporting you. For startups, FCI will share current info on Facebook and our website, as available. Watching news feeds from the National Cooperative Business Association ([ncba.coop](http://ncba.coop)) and others will also help you stay current on any changes in the SBA relationship with cooperative businesses. •