



**Franchising**<sup>™</sup>  
Building local businesses,  
one opportunity at a time.

January 27, 2009

The Honorable Nancy Pelosi  
Speaker of the House  
U.S. House of Representatives  
Washington, DC 20515

The Honorable John Boehner  
Republican Leader  
U.S. House of Representatives  
Washington, DC 20515

Dear Speaker Pelosi and Republican Leader Boehner:

On behalf of the International Franchise Association (IFA), I am writing to share with you our comments on H.R. 1, the American Recovery and Reinvestment Act of 2009. We support several of the necessary changes this legislation makes to the way the Small Business Administration (SBA) loan guarantee program functions, but we strongly urge Congress to devote more resources to small business programs and tax relief in order to ensure we can help the economy create new jobs.

As the largest and oldest franchising trade group, the IFA's mission is to safeguard the business environment for franchising worldwide. IFA represents more than 85 industries, including more than 1,200 franchisor, 11,000 franchisee, and 600 supplier members nationwide. According to a 2008 study conducted by PricewaterhouseCoopers, there are more than 900,000 franchised establishments in the U.S. that are responsible for creating 21 million American jobs and generating \$2.3 trillion in economic output.

The IFA strongly supported the Emergency Economic Stabilization Act, and we shared the view that it was critical to right the ship on Wall Street so that capital would continue to flow to Main Street. Even though many financial institutions received essential support to save our financial system, these efforts are slow in making their way to franchised small businesses. Proposals in the American Recovery and Reinvestment Act will go further toward easing the flow of capital to small businesses. The IFA is strongly supportive of provisions that will spur the recovery and renewal of franchised businesses, including those which:

- Provide \$426 million in direct lending for SBA loan guarantees;
- Increase SBA guarantee from 85% to 95% of the loan amount;
- Establish interest rate index as 3% above either LIBOR or Prime Rate;
- Establish SBA Secondary Market Lending Authority;
- Enable broker-dealers to purchase the SBA guaranteed portion of loans from lenders;
- Establish new lending and refinancing authorities within SBA;
- Extend various key tax relief incentives for small businesses such as bonus depreciation, net operating loss carry back, Sec. 179 expensing, and depreciation of business assets; and,
- Establish a tax credit for the hiring of returning military veterans in addition to the unemployed and disconnected youth.

While we support these provisions, there are additional steps that Congress can take to aid the American economy. The money the American Recovery and Reinvestment Act devotes to small

business lending activities is sharply lower than the job creation potential of the small business community. For example, small businesses account for 99.7 percent of all employer firms in the U.S. and, according to the SBA, as of June 2007 there were \$684.6 billion in outstanding loans to small businesses in this country. SBA data indicates that small businesses account for almost 50 percent of all jobs in the private sector, but only .05 percent of the pending measure is devoted to small business lending programs. Experience shows that commercial banks are likely to restrict credit until there are clear signs that the economy is on its way to a complete recovery. Therefore, it is imperative that Congress devote even more resources to SBA lending programs and guarantees now, because these tools will result in job creation more quickly than other recovery and reinvestment initiatives. Small businesses account for the majority of new job creation in this country, and Congress should be empowering them with the tools to lead the economy out of recession.

Furthermore, lending at its simplest is an assessment of risk and return. We fully appreciate your efforts to link interest rates to both LIBOR and the Prime Rate. The IFA feels that more incentives may be necessary in order to encourage lending so that the returns are worth the effort. If there is a cap on the gross return, then reducing the costs of achieving that gross return should be Congress' next step. Any efforts that will reduce a lender's cost of making and servicing an SBA loan—such as reduced fees and paperwork and easing audit standards—must be considered.

Finally, we understand that there are proposals to require any business that benefits from this legislation to utilize the flawed E-Verify system. We ask that you oppose this provision, as it is entirely contrary to the purposes of stimulating the economy. Mandating employers to use the E-Verify program represents a massive expansion of a system that has well-documented costly and inaccurate flaws that will counteract any benefits that the American Recovery and Reinvestment Act is designed to deliver to the economy.

Particularly in times of economic stress, franchising gives small businesses an extra margin of help through access to training, business methods and marketing support provided by the franchisor. Similarly, franchising offers the U.S. economy a strong foundation from which to encourage job growth and recovery. Providing franchised businesses access to capital and improving the conditions for SBA lending will ensure that these small business entrepreneurs will be positioned to help lead us out of recession.

Please do not hesitate to contact us with any questions or concerns. Again, we greatly appreciate your leadership on behalf of all U.S. small businesses.

Sincerely,

A handwritten signature in black ink, appearing to read "David French". The signature is stylized and cursive.

David French  
Vice President, Government Relations

cc: Members of the House of Representatives