



July 13, 2009

The Honorable Timothy F. Geithner
Secretary of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Mr. Secretary:

I am writing on behalf of the International Franchise Association (IFA) to urge you to take immediate action to support small business lending activities by commercial banks. The crisis facing CIT is just the latest symptom of the extraordinarily severe credit crunch affecting franchised businesses in this country.

The IFA's mission is to safeguard the business environment for franchising worldwide. We represent franchised businesses in more than 85 industries, including more than 11,000 franchisee, 1,200 franchisor and 600 supplier members nationwide. According to a 2008 study conducted for the IFA Educational Foundation, there are more than 900,000 franchised establishments in the U.S., creating 21 million American jobs and generating \$2.3 trillion in economic output.

The IFA believes a compelling case exists that franchised businesses offer the best opportunity for policymakers to promote a strong and sustainable recovery. Franchising is a resilient business model with specific attributes that should position franchised businesses to lead the U.S. economy out of the recession. People choose franchising because of the established business methods, training and support provided by the franchisor. Economic downturns often lead to a strong infusion of human capital in franchised businesses as workers affected by corporate lay-offs are looking to start their own businesses. In turn, these potential franchisees bring new energy and new capital to franchising. Our data shows that franchising grew nearly four times faster than the overall economy in the four years following the last recession (2001-2005), and we believe that one of the fastest ways to kick start the American economy into a sustainable recovery is to target categories of businesses that can create and sustain the most jobs, such as franchising. The only missing element is access to capital.

In May 2009, the IFA released its *Small Business Lending Matrix and Analysis* which demonstrates that for every incremental \$1 billion of lending to franchisees, 34,100 jobs and \$3.6 billion of additional economic output are created. Providing critical assistance to a substantial SBA lender such as CIT that has had positive lending outcomes seems a prudent use of government assistance during this challenging time. Moreover, we believe that a program of broad federal support for increased franchisee borrowing will result in a significant benefit to the U.S. economy.

At first glance, CIT may appear too small to merit "too big to fail" consideration by the Treasury Department, however, CIT plays a critical role for small business borrowers nationwide. Since 2000, CIT has been the largest originator of SBA-backed franchise loans and was responsible for \$766,568,550 in small business loans in FY 2008. The volume of CIT's small business lending is down dramatically this year, and we are very concerned that allowing CIT to enter bankruptcy will send the wrong signal to small businesses on Main Street. Moreover, the market withdrawal of many

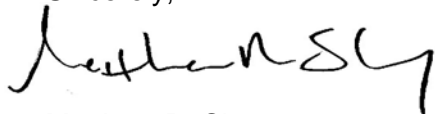
other lenders has left borrowers with few remaining options. As the economy has deteriorated, Banco Popular, Comerica, and UPS Capital have all vacated the SBA lending business nationally (in 2008, these banks were ranked numbers six, nine and ten respectively in the small business lending marketplace). GE Capital, another historically active lender in the small business and franchising markets, has halted virtually all franchisee lending. Banks, such as Wells Fargo and PNC, have also cut back on their lending to franchised businesses and tightened lending standards significantly for the loans that they are willing to make. For example, we understand that the required equity contribution is now between 30 to 35 percent of the investment, compared with 20 to 30 percent in previous years; and lenders are now requiring potential new franchisees to have a proven track record. These are all signs that commercial lenders are responding conservatively to a significant recession, rather than to a specific concern about the risks of franchise lending.

The franchise business community believes that there are several steps the Administration and Congress should consider to make it easier for entrepreneurs to access capital and create jobs. One option may be a federal program to facilitate the syndication of franchisee loans (perhaps using the TALF as a model). We also believe that Congress should increase the standard SBA 7(a) maximum loan limit from \$2 million to \$4 million and increase the maximum guarantee amount provided to \$3.6 million. The economic downturn has resulted in borrowers having less collateral due to declining home values and reduced investment and savings accounts. Increasing the loan limit will allow more individuals and businesses to take advantage of the 7(a) program, expanding the job creation potential of the program. Congress should also consider examining a market-based loan pricing model for the SBA loan programs. The real issue for many small business borrowers is not as much the cost of funds as it is the basic availability of funds. When SBA programs cap the interest rates that can be charged by lenders, the rules create a competitive disadvantage for small business borrowers. Despite the best intentions of policymakers, market economics dictate that capital will not flow to markets that offer below market rates.

It is imperative that the Administration devote key resources to small business lending activities now, because these tools will result in job creation more quickly than other recovery and reinvestment initiatives. It is widely acknowledged that small businesses account for the majority of new job creation in this country, and the federal government should be empowering them with the tools to lead the economy 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 "Matthew R. Shay". The signature is fluid and cursive, with the first name being the most prominent.

Matthew R. Shay
President & CEO