



Franchising
Building local businesses,
one opportunity at a time.

Franchised businesses play an important role in the economic health of the U.S. economy. The franchise industry consistently outperforms the non-franchised business sector creating more jobs and economic activity in local communities across the country. 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 11,000 franchisee, 1,200 franchisor 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.

Over the past several months, small business entrepreneurs have experienced difficulty in accessing capital. While Congress and the Administration have taken important steps to address these challenges to improve the availability of credit, franchised businesses and prospective franchise investors with strong credit histories have had loan applications denied. Normally, the SBA typically guarantees approximately \$20 billion in loans annually; however, new lending in 2009 is predicted to be less than \$10 billion.

Outlined below are several additional steps that can be taken to further encourage lenders to begin writing loans for more small businesses:

Increase the Maximum Loan Limit – Increasing the standard 7(a) maximum loan limit from \$2 million to \$3 million, and the maximum guarantee dollars from \$1.5 million to \$2.7 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.

Temporarily Eliminate or Reduce Lenders Fees - Currently, SBA loans are cost prohibitive for lenders; and in particular, community banks, to originate and service. Access to available capital is the most pressing issue facing small business owners. Eliminating borrower fees without having access to capital is counter-productive.

Enact a Market-Based Loan Pricing Model - The reason for any financial institution to lend money and at what price is based on simple risk vs. return analysis. SBA guaranteed loans are capped at approximately 6%, as compared to the private credit markets for AAA-rated companies are currently priced in the 7%-9% range. The result is capital cannot flow to markets that offer below market rates. When high grade, large cap companies are borrowing at 100 – 200 basis points higher than what SBA lenders can charge for small, thinly capitalized businesses, there is a major market breakdown that cannot be fully resolved simply by changing the guarantee rate and reducing lender fees.

Reverse SBA's Policy on Acquisition Financing/"Goodwill" - On March 1, 2009, the SBA enacted a policy change that adversely affects the ability to finance business acquisitions by capping the amount of "goodwill" financed at 50% of the loan, or \$250,000 whichever is lower. Small business owners will either have to provide their own seller financing or lower the sale price, or both. These are actions that will quickly lead to broader business valuation decline that will impact economic recovery.

Audit Standards - Lenders are afraid to make SBA loans for fear of the loss of the guaranty for reasons that are not material and made arbitrarily by auditors. Investors in SBA loans are hesitant to purchase the securities for fear of the guaranty being suspect. The ultimate leverage for an auditor should be the suspension or revocation of the financial institution's Preferred Lender status.