



## Small Business Access to Credit

### Background

Franchising offers the U.S. economy a strong foundation from which to encourage job growth and recovery. 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. There are many prospective franchise business owners with excellent credit histories that are pre-approved to purchase a franchise but are prevented from moving forward due entirely to lack of financing. With local community banks hesitant to lend, quick relief is nowhere in sight for these entrepreneurs. We must temporarily boost the SBA's loan programs as well as permanently update the maximum loan limits to meet the lending needs of small businesses in 2010 and beyond. Providing these entrepreneurs with better access to capital through these programs until the conventional loan markets resume normal levels of small business lending will ensure that small businesses will be positioned to help lead us out of recession.

Franchising exists across more than 85 different industries and offers a unique sampling of how increased access to capital can lead to sustainable economic growth. There is a direct correlation between dollars loaned and jobs created. Every million dollars added to franchise lending creates or protects an estimated 40.4 total jobs and generates an estimated \$4.2 million in annual economic output. Increased capital flow to the franchising sector can have a very positive impact on the pace of the U.S. economic recovery. Likewise, constrained capital flow will have a negative impact not only on franchising sector growth but also the U.S. economic recovery as whole.

Considering all these factors, there is a predicted shortfall of more than \$3.4 billion or 34% in lending to franchise businesses in 2010. Banks are estimated to lend \$6.7 billion to franchises in 2010 versus the \$10.1 billion that would meet 100% of demand. This shortfall of \$3.4 billion represents 12,350 franchise units that will not be developed or transferred in 2010.

### Support S. 2869/H.R. 4302, the Small Business Job Creation and Access to Capital Act

The House and Senate have passed several 30-day extensions of popular SBA Recovery Act provisions such as the 90% loan guarantee and borrower fee reductions. Legislation to extend these provisions through the end of December 2010 and permanently increase the maximum loan guarantee amount from \$2 million to \$5 million has been introduced in the House and Senate.

### Key Points

- Franchised small businesses need access to credit in order to maintain cash flow, expand operations or open new stores and locations.
- FRANData's *Small Business Lending Matrix and Analysis*, predicts a shortfall of 34%, or \$3.4 billion less loans to franchised small businesses in 2010.
- Supporting franchisee credit needs has a large benefit for a relatively small amount of federal spending: for every incremental \$1 billion of franchisee borrowing, 40,400 jobs and \$4.2 billion of additional economic output are created.
- Congress can create jobs faster and support small businesses by:
  - Extending the 90% SBA 7(a) loan program guarantee rate through 2010
  - Increasing the maximum 7(a) loan size to \$5 million, as in S. 2869 introduced by Sens. Landrieu (D-LA) and Snowe (R-ME) and H.R. 4302 introduced by Rep. Lowey (D-NY) and Abercrombie (D-HI)
  - Improving access to SBA loan programs specifically for small business start-up and expansion

For more information, please visit [www.franchise.org/capitalaccess.aspx](http://www.franchise.org/capitalaccess.aspx).