



Credit Access Survey, March, 2011

The purpose of IFA's *Credit Access Survey* is to update results from a previous survey of IFA members conducted November, 2010 to measure their views about business conditions, their outlook for 2011, and gauge how "credit access" is impacting their businesses and plans for business expansion. The email survey was conducted from March 7-18, with separate surveys sent to IFA franchisor and franchisee members. In total, more than 370 members responded to the survey with a response rate of 6% for the franchisor survey and 2% for the franchisee survey.

In addition to the summary results and charts below, there is separate section with individual comments from the survey participants.

Franchisor Survey Results

Franchisors report a slight improvement in business conditions as of March, 2011 compared to November 2010. With 20% of franchisors saying conditions are "Very Good" compared to 15% in November, 2010. While about the same number say conditions are "Somewhat Good" (35% and 36%), fewer report conditions are "Somewhat Poor" to "Very Poor" in March compared to November -- 16% to 26%.

Likewise, franchisors are more optimistic in their outlook for business conditions over the next 12 months – with 23% saying they expect conditions to be "Very Good", compared to only 13% who said they expect conditions to be "Very Good" in the November survey. Only 8% say they expect conditions to be "Somewhat Poor" compared to 14% in the November survey.

While franchisors' views about current and future business conditions have become more positive, their reports about the impact of credit access on their business have not significantly changed –

Thirty-nine percent (39%) of franchisors report that more than 50% of their franchisees and franchise prospects are unable to obtain needed financing – compared to 33% in the November survey. Only 5% report their franchisees and prospects have had no difficulty with credit access, compared to 8% in the November survey.

Likewise, 60% of franchisors say they have seen no improvement in credit access in recent months, compared to 65% who reported the same conditions in the November survey. Only 3% report they have seen a significant improvement in credit access compared to 1% in the November survey.

Franchisors report they are still facing challenges with credit access. Forty-six percent (46%) report a significant impact on their ability to expand, compared to 42% in the November survey. Only 16%

report credit access has had no impact on their ability to expand, compared to 12% in the November survey.

Franchisee Survey Results

Franchisees report little change in their business conditions from November, 2010. Only 6% report business conditions at the present time are “Very Good” compared to 6% in the November survey. Likewise, 31% of franchisees report business conditions at the present time are “Somewhat Poor” compared to 24% in the November survey. Twelve percent (12%) report business conditions are “Very Poor” compared to 14% in the November survey.

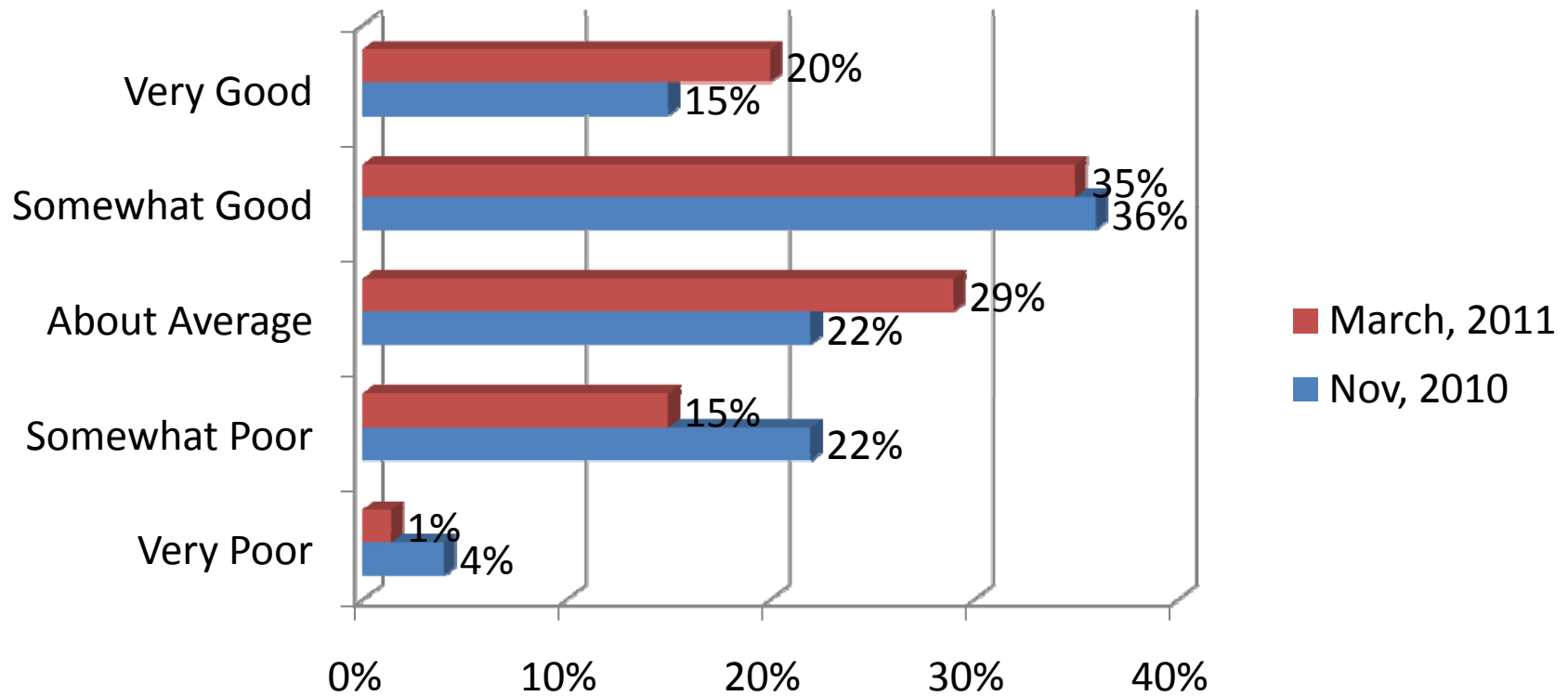
Unlike franchisors who are more optimistic in their outlook about an improvement in business conditions over the next 12 months, franchisees’ views remain unchanged from the November survey. Only 8% of franchisees say business conditions will be “Very Good” over the next 12 months, compared to 7% in the November survey. Likewise, 13% both in the March and November surveys report they expect business conditions to be “Somewhat Poor” and 9% and 8% respectively say they expect business conditions to be “Very Poor”.

Franchisees report that credit access continues to have a significant impact on their business. Forty-one percent (41%) report that credit access has a significant impact on their business in the March survey, compared to 31% in the November survey. Nine percent (9%) of franchisees report that credit impact is having no impact on their business, compared to 19% in the November survey. However, this survey result may also be interpreted with the results which show that 31% of those surveyed indicate “Not Applicable” which means they did not apply for any credit in recent months. This may indicate that some franchisees have abandoned their search for financing.

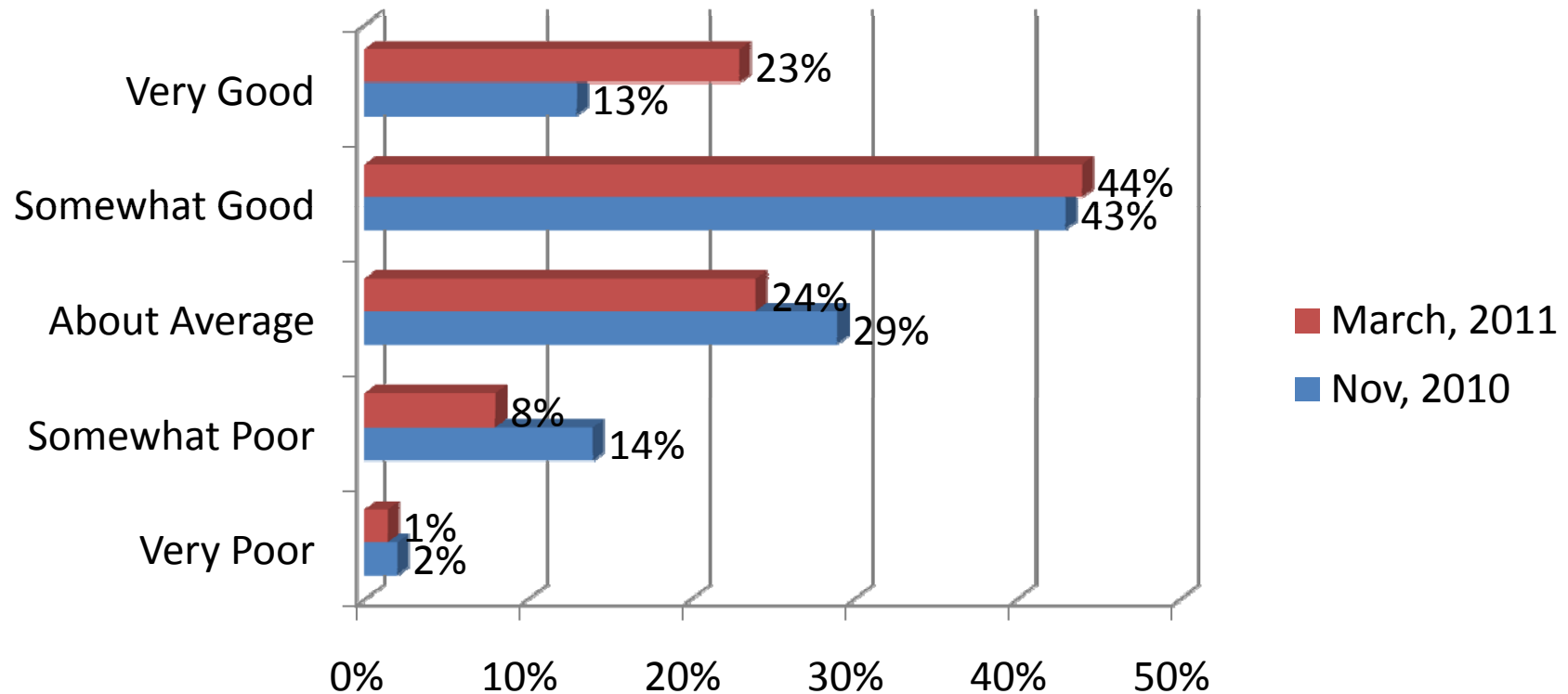
Likewise, both in the March and November survey, no franchisees report a significant improvement in credit access in recent months. Three percent (3%) report a moderate improvement, compared to 6% in the November survey. Sixty-four percent (64%) report no improvement in credit access, compared to 75% in the November survey. In addition, one third of those surveyed indicated “Not Applicable” which means they have not applied for credit or do not need credit.

Below are charts summarizing the survey results.

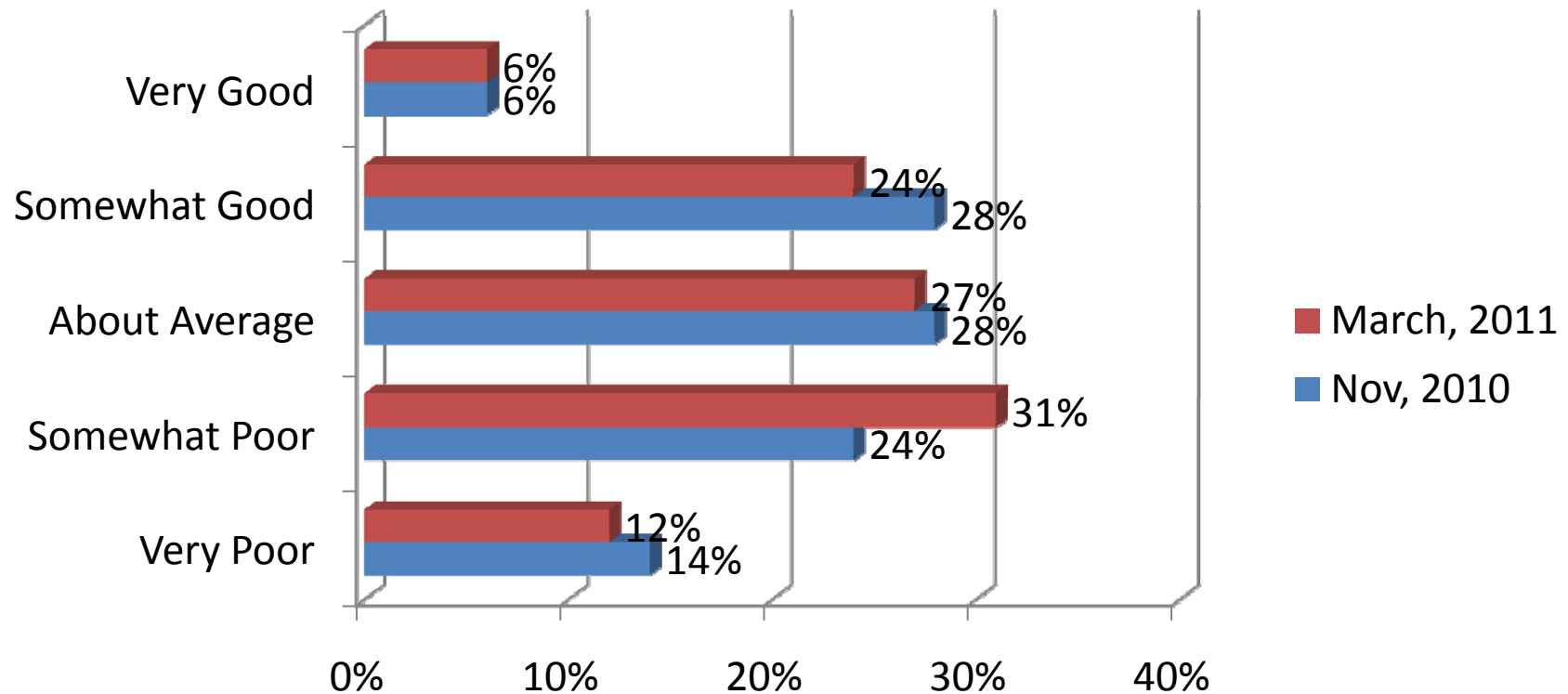
Overall Business Conditions At Present Time Franchisors



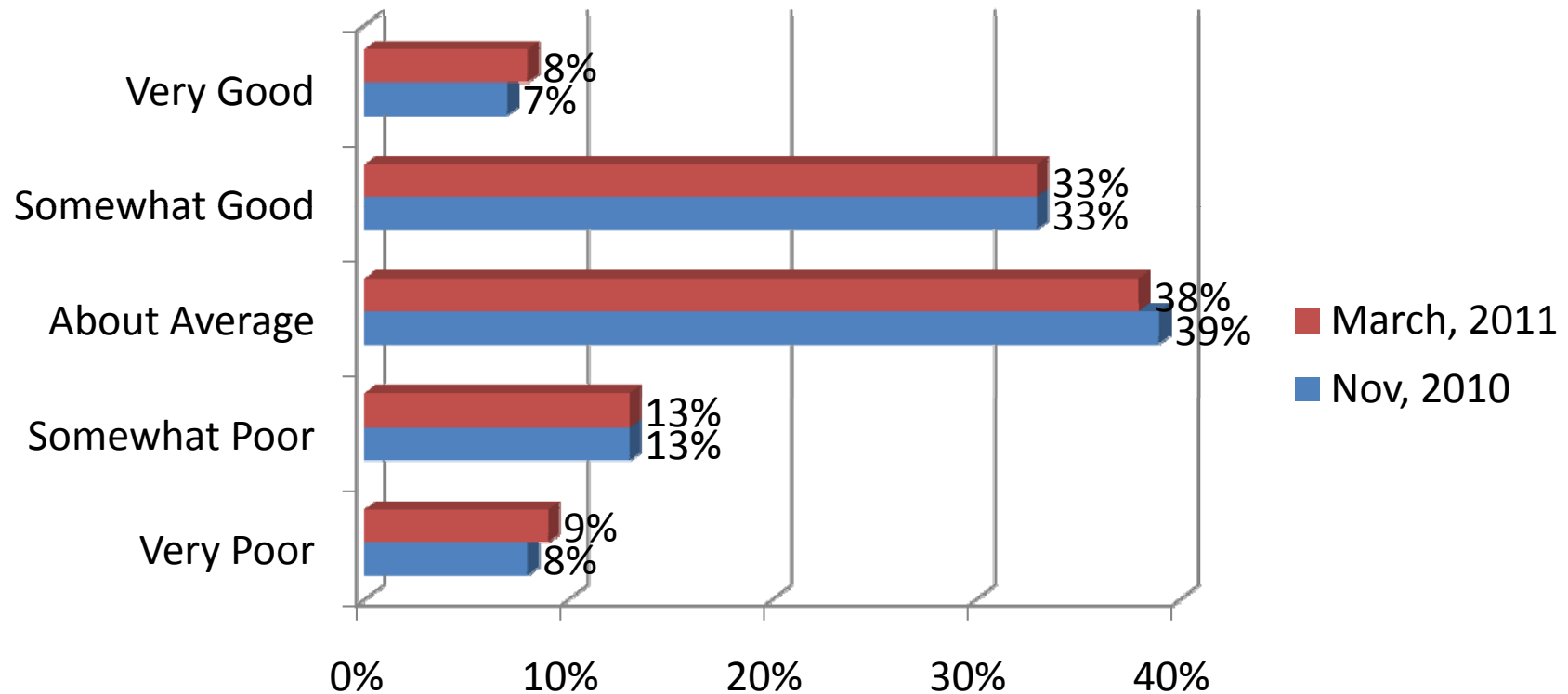
Overall Business Conditions for Your Business in Next 12 Months - Franchisors



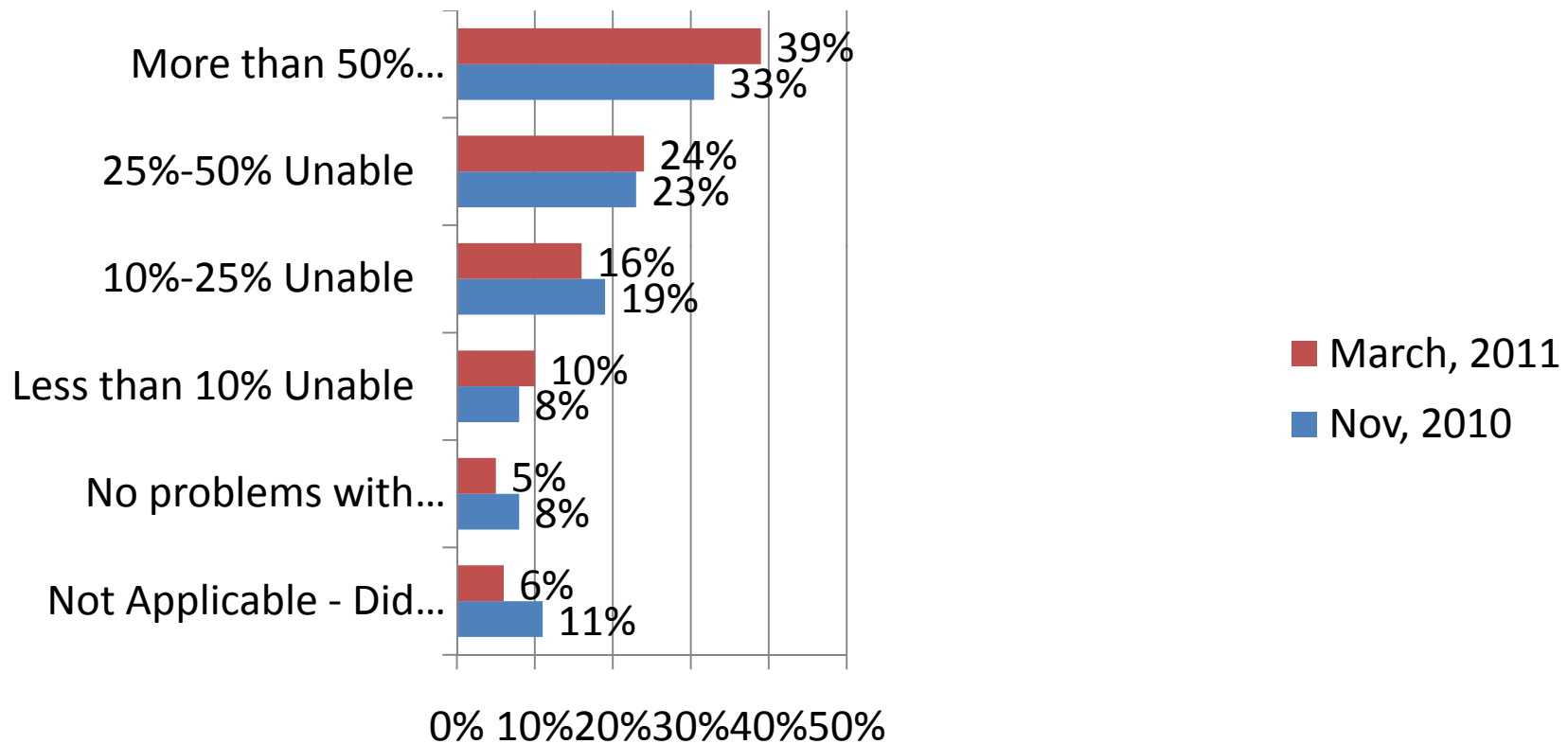
Overall Business Conditions for Your Business at the Present Time - Franchisees



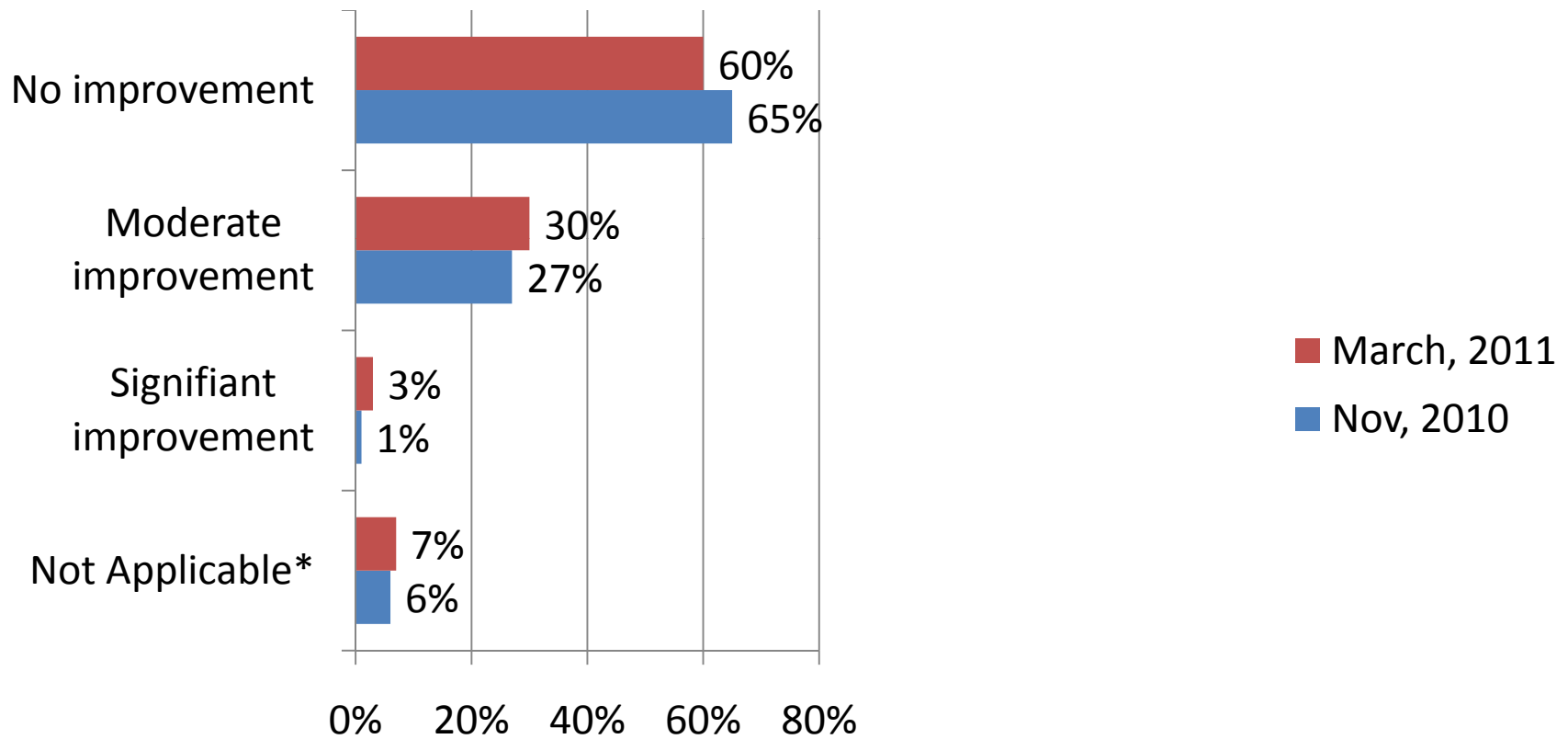
Overall Business Conditions for Your Business in Next 12 Months - Franchisees



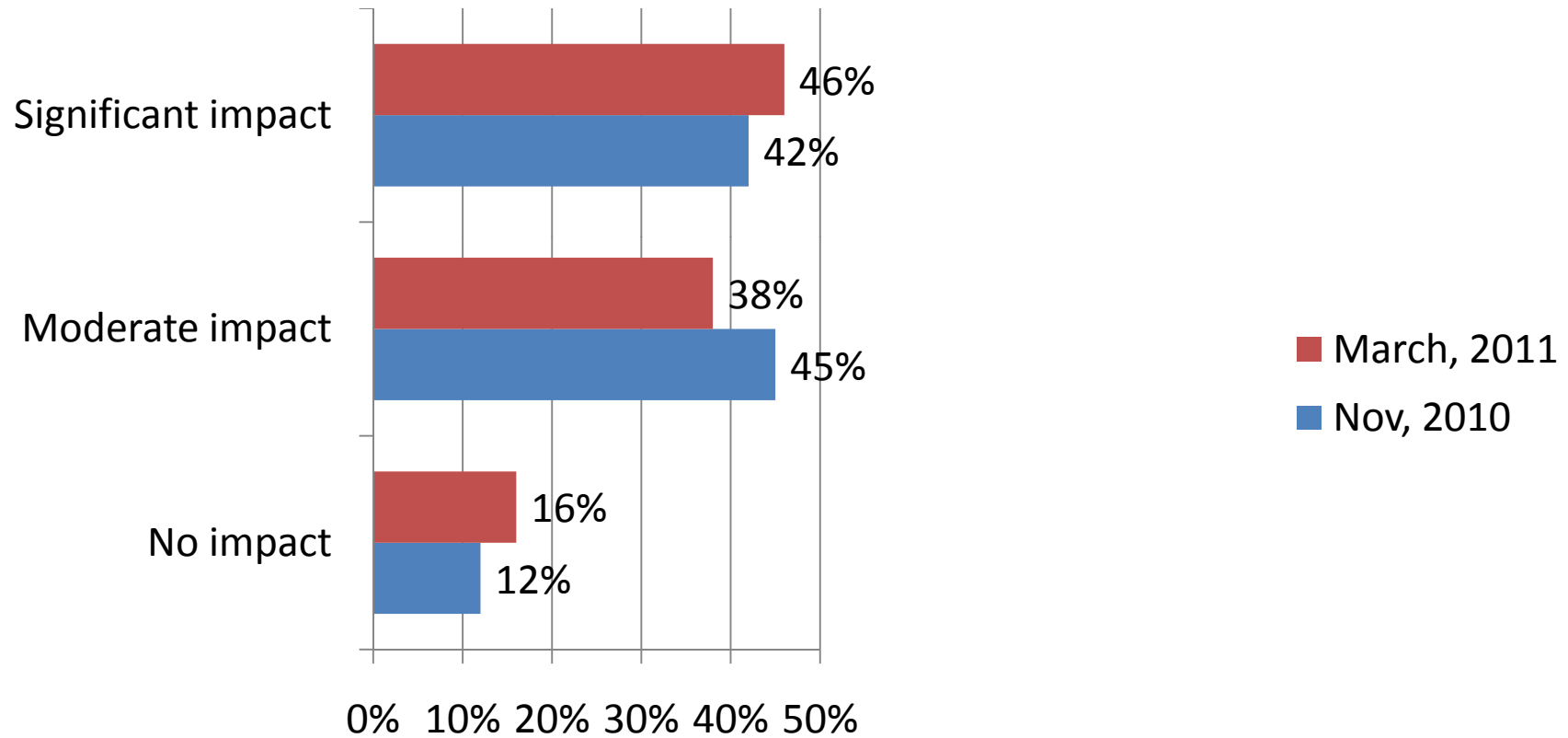
Credit Access & Impact -- Franchisors



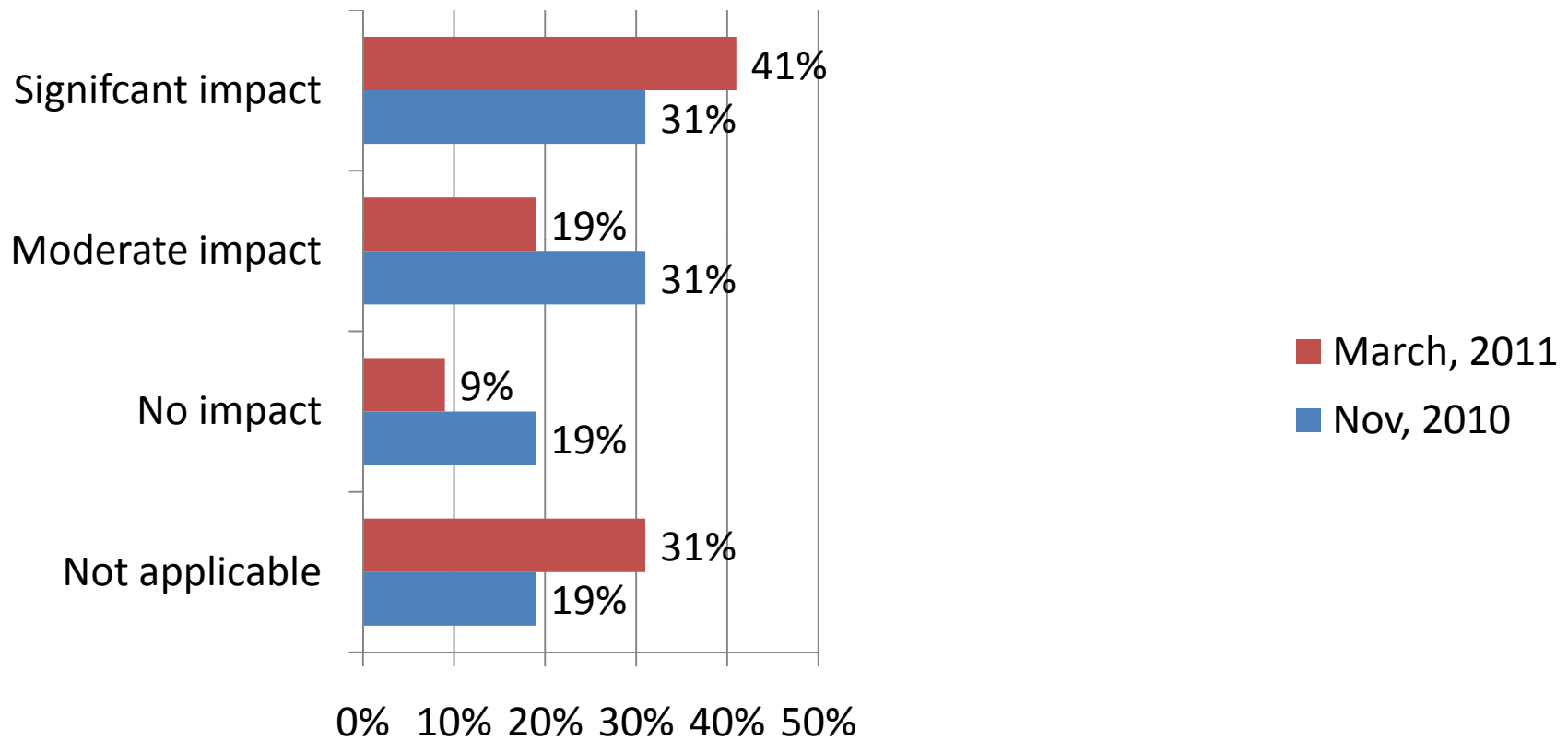
Improvement in Credit Access in Recent Months - Franchisors



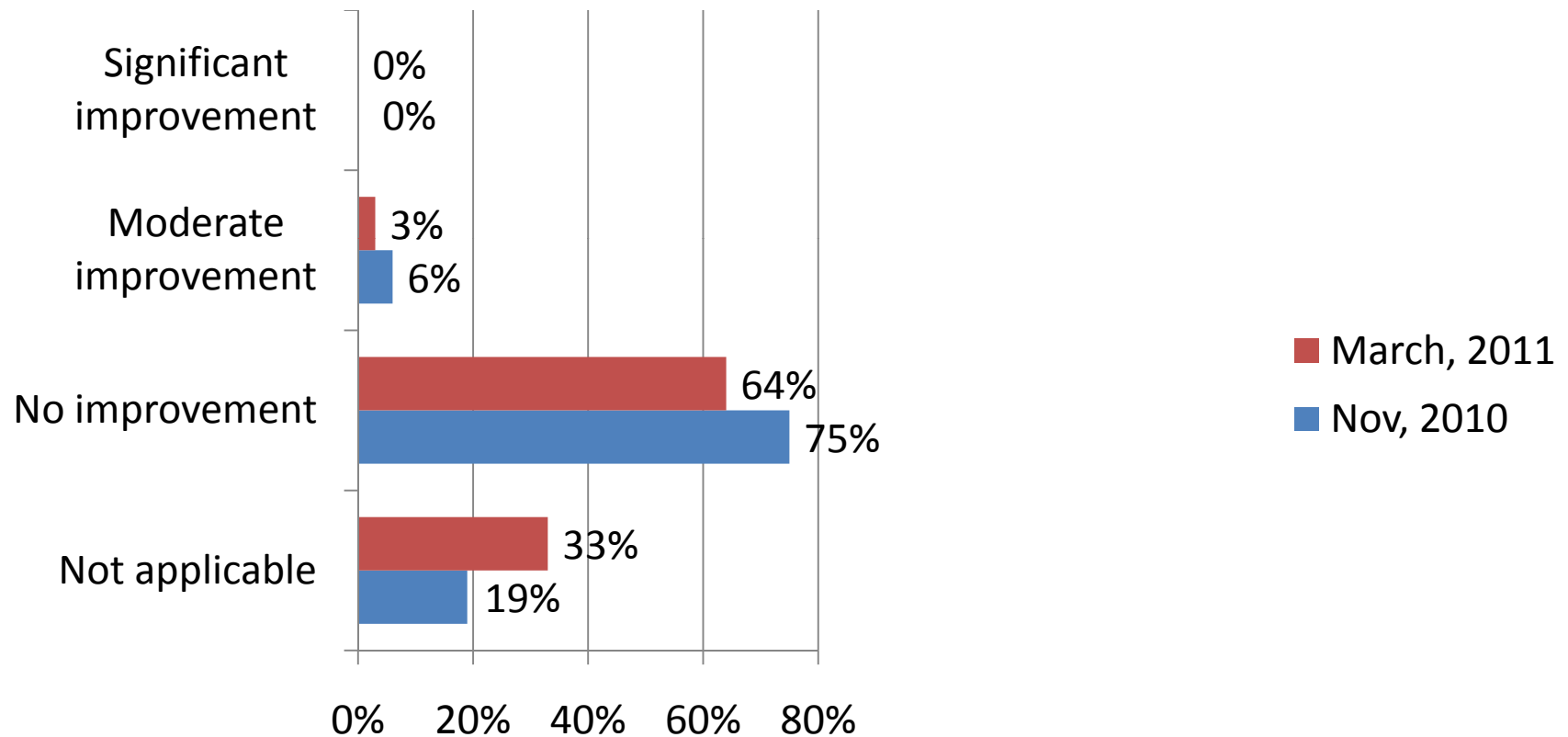
Credit Impact On Ability To Expand - Franchisors



Credit Access & Impact -- Franchisees



Improvement in Credit Access in Recent Months -- Franchisees



Individual Replies From Survey Participants

The International Franchise Association conducted a survey of franchisors and franchisees from March 7 to 18, 2011, to gauge access to credit challenges for these business owners. It was designed to see how credit conditions had improved for this group since a similar survey was conducted in mid-November 2010. The full results of the survey can be found online at www.franchise.org.

Below some of the direct responses from those small franchise establishments which responded that the lack of credit had impacted their business. A fair number of respondents skipped this question, but for those which did answer it, it is instructive.

Franchisors

Respondents were asked to give examples of either a current franchisee or franchisee prospect who has encountered difficulty with getting access to credit. Here is a sample of some of the responses:

- “Several prospects were unable to obtain credit and we were not able to complete purchase of a franchise.”
- “We have had to work hard to help franchisees find lenders to work with; however, we have been able to successfully place 100% of our approved franchisees in loans. We have re-evaluated our criteria we are looking for in regards to liquidity from 2007 to now, but with hand holding, our franchisees do secure financing.”
- “We had a prospect that signed a Franchise Agreement in 2009 to establish our first location in Las Vegas. Despite being well qualified with both cash and assets, the prospect could not get financing.... The prospect eventually abandoned that effort in June, 2010.”
- “New prospective franchises are finding it VERY difficult to obtain financing which makes it difficult to consummate deals.”
- “We have found that for the individual franchise owner prospect, lending has diminished. Some of this is due to the fact that 2 years of poor economy, the failure of the housing market, have left these individuals using their 401k, or have lost [much of the] equity in their homes. This has been the prime source for establishing a loan.”
- “Had an individual in New York. He was determined to buy our franchise. This was his ‘soul mate’ in reference to the ideal business. We put him in touch with several lenders and he could not get financed, although he had a good credit score.”
- “I have a candidate I have been working with for over 14 months.... He has worked with over 20 banks, all with no success in getting the deal financed. He has a strong personal

financial statement, but still can't get a loan. The banks are looking for a no risk loan and still making it difficult. They are asking for direct industry experience, 25-30% cash injection, high levels of collateral and high cash reserves. If someone has all those things, they are not typically looking at starting new concepts... they are most likely investing in the concepts that have experienced success in the past. Very frustrating."

- "Since we are carefully vetting our franchise prospects' financial position and are only working with those individuals who are qualified for financing, we are not encountering difficulties."
- "Franchise prospects with good credit are being asked for ridiculous collateral ratios combined with liquid capital. If they had these kinds of funds available, they would not need the bank for a loan to start a business."
- "A new franchisee who was a former ... franchisee and had dealt with a local banker with SBA for many years. He was unable to get a loan to start his new [franchise]. Through another financial source who had set up an innovative way to get qualified candidates/franchisees a line of credit, obtained this line of credit within 48 hours."
- "Most candidates we assist in matching with quality franchise companies in the past were able to finance their business with home equity or the 401k program. With the unemployment so high, we should be helping candidates find [opportunities] as an entrepreneur. Now that American Dream is fading. Remember all franchise opportunities aren't millions. Help assist the "everyday" entrepreneur with smaller loan amounts under \$250k."
- "The vast majority of people inquiring about our business aren't able to obtain funding."
- "We have been informed by SBA that if we were a successful company, they were not interested in guaranteeing our loan. Their purpose is more of a rescue vehicle for struggling companies or companies failing for lack of funding. Our financials were too strong to be of interest and would not allow them to fulfill their mission."

Franchisees

Similar to the survey for franchisors, franchisees were asked to describe issues that they were experiencing with limited access to credit. The following are examples from those who responded to the question:

- "I have an SBA loan that I wanted to restructure. My SBA lender said that there were no programs available to existing borrowers."
- "I tried to sell my businesses in 2010 and am still trying in 2011, but buyers cannot obtain credit to purchase a resale franchise."
- "The total credit line on one of my accounts was reduced by 35%."
- "Not able to sell troubled assets."
- "Limited access to credit has kept me from adding additional positions, vehicles, and equipment for growth."

- “I tried two local banks for a loan to pay off existing debt and was simply told that we are not making loans to small businesses at this time. It was clear there was no interest on their part to even have the discussion.”
- “Affects my clients more than me. Some clients have not been able to obtain credit to purchase products or services from me.”
- “Business credit card limit lowered 45%, despite having a strong history of on-time payments on all my debts.”
- “My business relies on my clients’ ability to get credit to fund the purchase of their business. Most have used 401k funds rather than ... secure bank funding.”
- “My clients’ limited access to credit has deeply impacted my business. If there were able to finance my services then [my] business would be able to rebound.”
- “Sustained lack of business due to low consumer confidence would likely preclude me from getting a loan.”
- “We suffered significant losses in revenue in 2008 and especially 2009. This caused the business to suffer the first financial loss years since the mid-1990s.”
- “Limited my ability to carry receivables and to handle my expenses during the normal seasonal downturn.”
- “The banks won’t hardly talk to you. If they did, they required mountains of paperwork before turning you down.”
- “I need business, not credit.”