July 24, 2019

The Honorable Tom Cotton
Chair, Subcommittee on Economic Policy
The Honorable Catherine Cortez Masto
Ranking Member, Subcommittee on Economic Policy
Senate Banking Committee
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U.S. Senate
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Washington, DC 20510
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Statement on “Economic Mobility: Is the American Dream in Crisis?”

Submitted to the Senate Banking Committee Subcommittee on Economic Policy

Dear Chairman Cotton, Ranking Member Cortez Masto, and Subcommittee Members:

As the Chairman of the Board and the Chairman of the Franchisee Forum of the International Franchise Association (IFA), we appreciate the opportunity to comment for the record on how the franchise business model is a vehicle for achieving the American Dream. Leveraging our experience as successful franchise business owners and mentors to prospective franchisees, we would like to offer a more comprehensive picture of franchising than the one painted at the Subcommittee; share information that highlights the strength of the U.S. Small Business Administration (SBA) system for vetting franchise brands for loan approvals; and express our firm belief that participation in the franchise business industry helps unlock economic prosperity for all Americans.

As the representative body for franchisees within the IFA, we are proud to be a clarifying voice for franchisees as legislative and regulatory issues impacting the franchise business model arise at the federal, state, and local levels. The view on franchisee dissatisfaction offered at the Subcommittee hearing suffers from at least two flaws. First, while we support transparency and disclosure as required by the FTC Franchise Rule, the suggestion to require the FTC to collect and review every Franchise Disclosure Document (FDD) would be unnecessary, costly and burdensome to the agency. The Franchise Rule already requires every franchisee to receive this extensive document as part of the purchasing process, and adding this regulatory burden to the FTC will only add an additional and unnecessary task. Increasing regulations requiring an agency to collect thousands of FDDs will not improve prospective purchasers’ willingness to carefully consider whether franchising is right for them and conduct due diligence of a franchise network. Both tasks are critical steps for individuals who wish to determine whether to make a franchise investment.

Second, the testimony does not include statistics for franchise business unit closures beyond the year 2014. Both the SBA statistics (2000-2011) and the Franchise Grade data (2010-2014) cited in the testimony include units that closed during the Great Recession. It weakens the argument to cherry-pick years when many American businesses – whether big or small, franchised or stand-alone – were struggling to survive.

In response to the call for increased Federal Trade Commission (FTC) disclosure of brands qualifying for SBA 7(a) loans, we acknowledge previous legislative efforts (H.R. 471, 115th Congress; H.R. 3559, 116th Congress) designed to achieve the same goal. We would respectfully point out that these bills did not receive committee action and lost congressional support between sessions of Congress.

It is also important to note that SBA-guaranteed lending programs are an important source of financing for small franchise business owners, many of whom are first-time entrepreneurs. In 2018, the SBA made
$5.6 billion worth of 7(a) loans to franchises. In order to even be pre-approved for SBA loan applications, franchise businesses must meet strict eligibility standards. Once approved, brands are listed on an in-house directory that lenders can rely on when deciding whether to extend SBA financing to franchisees.

Critically, no brand is available to a franchisee unless the brand is listed on this in-house directory. In addition, the SBA’s electronic loan processing system for 7(a) lending (E-Tran), requires that lenders identify franchise loans as well as the specific franchise when entering a loan application. This requirement, which has been in place since late 2016, allows for more accurate data pertaining to 7(a) franchise loans. This robust system of oversight at the SBA highlights a story untold at the hearing: that it is simplistic to blame a handful of franchisee failures on the SBA when other factors must be assessed.

Without addressing and examining these additional considerations, it is irresponsible to conclude that a few bad apples represent the entire franchise industry. While there may be instances when a franchisor behaves or takes action that is perceived to be unjust to a franchisee or prospective franchisee, they are rare. We know first-hand that small business franchise ownership is a viable pathway to achieving and maintaining economic success. With careful planning and execution, sound management of a franchise business can help grow the business and the franchisor’s brand – contributing to a successful relationship between the franchisee and the franchisor. Allowing someone who profits off the unfortunate circumstances of others to paint a one-sided picture of franchising does a disservice to the thousands of small franchise business owners in this country who work hard every day to grow their business and our economy.

The story about franchising we wish had been aired at the hearing is one based in data rather than anecdotes. For example, we are proud to represent a business model that attracts minority and veteran ownership. Data from a U.S. Census Bureau survey shows the minority ownership rate for franchised businesses increased from 20.5 percent in 2007 to 30.8 percent in 2012 (the most recent years for which data is available) – highlighting how franchising is increasing the number of opportunities for minorities to own their own business. In addition, since 2011, approximately 238,000 veterans and military spouses have found opportunities in the franchise industry and 6,500 veterans have become franchise business owners. Their lasting success in the franchise industry creates diversity within the broader franchise network and creates opportunities for others.

We thank the Subcommittee for its attention to our views.

Sincerely,

David Barr
Chairman, PMTD Restaurants
Chairman, International Franchise Association

Tom Baber
Money Mailer and IHOP Franchisee
Chairman, International Franchise Association Franchisee Forum