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March 30, 2020

The Honorable Marco Rubio
Chairman
Committee on Small Business &
Entrepreneurship
U.S. Senate
Washington, DC 20510

The Honorable Ben Cardin
Ranking Member
Committee on Small Business &
Entrepreneurship
U.S. Senate
Washington, DC 20510

The Honorable Nydia Velázquez
Chairwoman
Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

The Honorable Steve Chabot
Ranking Member
Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

Dear Chairs Rubio and Velázquez and Ranking Members Cardin and Chabot:

On behalf of the International Franchise Association (IFA), the world's oldest and largest organization representing franchising worldwide, I write on behalf of the nation's franchising community, which is comprised of over 733,000 establishments that employ over 7 million individuals and contribute \$674.4 billion of economic output to the U.S. economy. We greatly support and appreciate your leadership in passing bipartisan legislation to provide relief for franchise business owners, their workers, and families experiencing financial losses related to COVID-19. We ask you to facilitate this mission by ensuring that the franchise owners who employ millions of workers are not barred from accessing the aid Congress has provided.

Upon a direct reading of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, it seems clear that Congress recognized the importance of providing the franchising sector a path to recovery. For the Act to achieve its intended outcome and have maximum impact, IFA urges you to confirm the eligibility of the following franchised businesses in the Paycheck Protection Loan program in your engagement with the Small Business Administration (SBA):

1. A franchise system that is registered on the SBA's Franchise Registry already has—by the very fact that it is on the Franchise Registry in the first place—been determined by the SBA not to violate the SBA's customary affiliation rules as between franchisor and franchisee. Therefore, the affiliation waiver language in clause (36)(D)(iv)(II) should mean that *any* "business concern" (and *each* business concern) operating as a franchise in a system registered on the Franchise Registry should be eligible for a covered loan without regard to how many affiliated entities it might have that, under traditional SBA lending rules, would have disqualified the business concern from obtaining a loan due to size, revenue, etc. considerations.

Rationale: This interpretation would be consistent with Congressional intent to protect all businesses operating in the franchise sector without limitation and that a franchise employer should be eligible for a covered loan as a business concern to maximize retention of its employees despite the size of any affiliated entities. The unit economics of each business are substantially similar.



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2. Any “business concern” (and each business concern) operating as a franchise in a system registered on the Franchise Registry should be eligible for a covered loan without regard to its number of employees (i.e., even if a single franchisee entity employs more than 500 people).

Rationale: This interpretation would be consistent with Congressional intent to protect all businesses operating in the franchise sector without limitation, especially since there is no employee limitation in the statutory language. The unit economics of each business are substantially similar.

3. Franchisors whose franchise systems are registered on the Franchise Registry are eligible for the Paycheck Protection Loan program.

Rationale: This interpretation would be consistent with Congressional intent to protect all businesses operating in the franchise sector and the absence of statutory language restricting loan availability to a franchisee; the identifier code assigned by the Franchise Registry is for the benefit of both franchisor and franchisee.

4. The 7(a) program is typically limited to “small business concerns,” which term generally has included franchises listed on the Franchise Registry. However, clause (36)(D)(i) states that “in addition to small business concerns, any business concern...shall be eligible to receive a covered loan if the business concern...employs not more than...” (Emphasis added.) The more expansive wording “any business concern” should be interpreted to mean that franchises not currently on the Franchise Registry as an approved “small business concern” are eligible for the Paycheck Protection Loan program as long as they have no more than 500 employees.

Rationale: To be consistent with Congressional intent to protect businesses, maximize retention of employees, and protect the franchise sector, the purposeful language “any” business concern—in juxtaposition with the preceding language “in addition to small business concerns”—should be interpreted consistently with its plain meaning to cover any franchises even if such franchises are not on the Franchise Registry (but subject to the 500-employee cap for non-Franchise Registry franchises).

5. The affiliation-waiver provision in clause (36)(D)(iv)(II) should be interpreted to mean that franchise systems previously denied listing on the Franchise Registry because of perceived affiliation between franchisor and franchisee (for example, because of what might have been considered excessive control by the franchisor) now have the right to apply for and be listed on the Franchise Registry immediately and automatically for the duration of the covered period so that their franchisees can obtain covered loans.

Rationale: This interpretation would be consistent with the language waiving the affiliate rules and Congressional intent to protect businesses operating in the franchise sector and that a franchise employer should be eligible for a covered loan to maximize retention of its employees.

6. The use of “business concern” in clause (36)(D)(iii), if applicable only to a single entity that employs all of the employees at the multiple physical locations, should not limit that single



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business concern to a \$10 million loan cap for all employees at all locations.

Rationale: The most expansive interpretation should be adopted to be consistent with Congressional intent to protect businesses and the largest number of employees possible.

7. A non-franchised business concern in NAICS 72 with less than 500 employees is eligible for a covered loan by virtue of clause (36)(D)(iv)(I) even if one or more of its affiliates employs more than 500 employees (i.e., the affiliate with more than 500 employees does not disqualify its affiliate with less than 500 employees from obtaining a loan).

Rationale: This interpretation would be consistent with the language waiving the affiliate rules.

8. Correspondingly, the availability of clause (36)(D)(iii) if the single business concern in NAICS 72 has affiliates whose affiliation is not waived under clause (36)(D)(iv)(I) because they have more than 500 employees should not be interpreted to deny eligibility to the single business concern for the Paycheck Protection Loan program.

Rationale: This interpretation would be consistent with Congressional intent to protect businesses and the largest number of employees possible.

Thank you for your leadership and consideration. We stand ready to work with you in this critical moment.

Sincerely,

Matt Haller
Senior Vice President of Government Relations & Public Affairs
International Franchise Association