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**Financing
the FUTURE**

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Navigating New Trends and Challenges in Franchisee Approvals and Lending

Meet the Speakers

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SBA Relationship




Overview

Access to capital drives franchise growth,
but the rules are changing

Franchisee lending is evolving faster
than many realize.

SBA changes, shifting underwriting
standards, and broker roles are
reshaping the process.



Today's session breaks
down what practitioners,
franchisors, and candidates
need to know now.

Regulatory Backup

The rules shift. The market reacts.
Not always in the right order.

- ➔ Ownership eligibility: citizenship and operational control are under closer scrutiny.
- ➔ Global cash flow analysis now extends beyond business-level projections.
- ➔ Post-closing liquidity has become a formal underwriting expectation.
- ➔ **Credit Elsewhere** enforcement is tightening.
- ➔ SBA eligibility must be assessed before the franchise agreement is signed.

The SBA Franchise Directory

SBA Financing isn't available unless a brand is listed in the directory.

The SBA Franchise Directory vs.
The FRANdata Franchise Registry

The Directory is searchable, regularly updated, and non-negotiable for lenders.

Brands submit directly to the SBA: franchise agreements, control provisions, governance documents.

For emerging brands, no listing means no SBA channel for candidates.

Directory listing is a foundational step, not an afterthought.

ROBS

When structured correctly, ROBS solves two of the most common SBA hurdles.

Addresses insufficient equity injection and limited post-closing liquidity.

Allows the business to compensate the owner during ramp-up, giving lenders greater confidence.

Requires ongoing compliance: plan administration, IRS reporting, annual upkeep.

Not a shortcut. A legitimate and powerful tool when used correctly.

Entity Structure & Financing Eligibility

Structure is a financing decision, not just a tax decision.

- > Most franchisees default to LLCs or S corps. C corps are underused and underappreciated.
- > ROBS requires a C corporation, with downstream effects on ownership and capital flow.
- > Entity type affects SBA eligibility, affiliation analysis, and how the deal is underwritten.
- > Adjustments made after the fact cost time, money, and deal momentum.
- > Align structure with financing strategy from the very first formation conversation.

Item 7

Aggressive low-end Item 7 ranges create real problems in the lending process.

Lenders underwrite to realistic, conservative assumptions, not best-case scenarios.

Backed-out tenant improvement allowances can misrepresent what capital is actually needed.

Realistic, data-supported ranges build lender confidence and reduce friction.

Artificially low ranges lead to injection shortfalls, liquidity gaps, and debt service issues.

When actual costs fall outside the Item 7 range, lenders question the franchisor's credibility.

Net Worth vs. Debt Service Coverage

Net worth gets the attention. Debt service coverage makes the decision.

Lenders focus on
Personal Debt
Service Coverage
Ratio (DCR), not net
worth alone.

DCR evaluates
income, housing
obligations,
installment debt, and
total household
commitments.

Strong net worth on
paper does not
equal strong
serviceability in
practice.

A candidate with modest
net worth, low debt, and
steady income can
outperform a high-net-
worth candidate carrying
heavy obligations.

Understanding the
distinction protects
candidates from late-
stage surprises.

The Credit Elsewhere Requirement

If the capital is available and unrestricted, lenders have to account for it.



The SBA requires lenders to confirm a borrower cannot access comparable credit without the guaranty.



Readily accessible liquidity, including retirement accounts, may factor into this analysis.



Candidates who conduct this review early will be better prepared for how lenders treat their assets.



This is not a technicality. It directly influences eligibility, structure, and whether SBA financing is even the right vehicle.

Multi-Unit Financing

Multi-Unit means different things, and lenders evaluate them differently.

Brick-and-mortar: lenders assess combined project cost, simultaneous ramp-up risk, management depth, and construction timelines.

Service and mobile models: underwriting shifts to working capital, marketing ramp-up, and personal debt coverage ratio with no real estate exposure.

Franchisors structuring development programs should understand how their model is evaluated before candidates show up at the table.

Details matter. Conflating these models leads to poor preparation.

Prequalifying Before Discovery Day

Financial qualification should come before emotional commitment, not after.

Discovery Day requires real investment from both sides. Late-stage fallout is avoidable.



Is the candidate bankable under current standards?



Do they have sufficient liquidity and equity injection?



Do they meet personal debt coverage ratio expectations?



If SBA isn't viable, can they write a check?

Prequalified candidates improve close rates, protect brand credibility, and reduce friction for everyone.

The value of a financing consultant

Knowing the rules is only part of it. Knowing how lenders apply them is what moves deals.

SBA lending is a specialized form of commercial financing. Even experienced borrowers are often caught off guard.

Each lender applies SBA guidelines differently: risk tolerance, industry preference, and startup appetite all vary.

An experienced consultant knows which lenders are active, what profiles they favor, and how to position a file before it's submitted.

The goal is not a wider net. It's matching the right deal to the right lender the first time.

Post-Liquidity Closing

Lenders aren't just asking if you can open the business. They're asking if you can stay afloat once you do.

➔ After closing, borrowers still carry mortgages, installment debt, and household obligations.

➔ Deploying nearly all available capital upfront leaves little buffer during the most volatile early months.

➔ Post-closing liquidity is not just a reserve requirement. It's a personal debt service buffer.

➔ Advisors need to build this into the conversation early, not surface it when it becomes a problem.

The Business Plan as an Underwriting Tool

In today's lending environment, a business plan is a critical document, not a formality.

It ties together Item 7 assumptions, capital structure, personal debt coverage ratio, post-closing liquidity, and ramp-up planning.

A well-built plan demonstrates that the borrower understands the capital requirements, the ramp-up period, and the risks involved.

Often, the business plan is what separates a smooth approval from one that stalls.

Lenders want realistic projections, not best-case scenarios. How to do that without making an earnings claim?

In multi-unit situations, it also needs to show management depth and operational infrastructure.

Conclusion

Early engagement reduces friction. Late engagement creates it.



Every topic in this session points back to one theme; the earlier financing is integrated in the franchise development process, the better the outcomes



Candidates who assess their financial picture early avoid avoidable failure.



Franchisors who build financing into discovery protect their brand and their pipeline.



The development process has always prioritized operation and cultural fit. Financing deserves the same attention.

QUESTIONS?