



FRANCHISE LENDING IS GROWING.... IN 2015: IT'S TIME TO JUMP IN!

It's been a while since we've updated you about the franchise lending world. And the news is good. According to leading franchise analysis and advisory firm FRANdata, franchise lending has been growing steadily and is trending upward for future growth. We're longtime supporters of franchise lending and with good reason: Franchise lending gives you an opportunity to grow your loan portfolio, help people run their own business, and stimulate the economy - all with the mitigated risk franchise loans offer.

So as a lender, what should you look for? We spoke with FRANdata President Edith Wiseman who walked us through the data and available resources.

"Demand is great, which makes franchise lending an open field for lenders," she tells us. "As with any loan, lenders looking at franchises want to know how to judge and what to look for. Fortunately, data and resources abound to help lead the way. Also, by the time a franchisee talks to a lender, they've been evaluated by the franchisor/parent company, so much work already has been done."

Over the past year, FRANdata worked with Forbes Magazine to assess the "best" and "worst" franchises and factors contributing to the rankings.* Here's a quick breakdown of what lenders should look for:

- **Transparency.** How open is the franchisor to disclosing information about their operations and financials? Transparency allows franchisors to tell their story - warts and all - to reassure the lender and to prove they have a grip on their own operations.
- **Lender Friendliness.** FRANdata coined this term. It's about franchisors understanding and giving lenders the support and information they need to evaluate the franchisor and the franchisee's prospects for success. Criteria include:
 - Unit performance: Lenders should know about cash flow... how soon does a franchised business break even? What's the bottom line?
 - System: Fast growth can mask a lot of movement in a system, and the reasons behind turnover [units that closed] aren't obvious from regulatory documents such as Franchise Disclosure Documents (FDDs). More details will help lenders assess risk, e.g., not every termination is a failure. Franchisors can help lenders understand about movement in the system and put it into context. The real failure rate and franchised unit continuity rate can go a long way.
 - Franchisor. What's the franchisor's first cut to identify qualified franchisees? How well does the franchisor prepare new franchisees to get them out of the gate in a strong position, e.g., what financial support, training and marketing assistance are provided? If a franchisee experiences difficulties, what systems does the franchisor have to spot troubled units early on - and get them back on track?
- **SBA Knowledge.** Franchisors that understand SBA rules and requirements.
- **Lender Relations.** Franchisors with an assigned and dedicated lender relations person to handle lender inquiries and requests.

FRANdataResources

With 25 years of experience analyzing franchise performance, FRANdata is the standard bearer and creator of industry-accepted franchise performance measurements. Find these resources on www.frandata.com:

- **Franchise Registry.** The [Franchise Registry](#) lists franchise agreements found eligible under SBA regulations. Connecting more than 6,000 lenders to every franchise in FRANdata's database, the Franchise Registry provides the information, services and support that facilitate tens of thousands of franchise loans each year.** Franchisors voluntarily register for the list.

FRUNS (FRANdata Unique Number System) is a coding system that uniquely identifies brands associated with franchising in the United States. Every franchise operating in the U.S. has one unique FRUNS number, regardless of when they became a franchise. FRUNS is on the public pages of the Franchise Registry. The SBA has used FRUNS since October 2013.

Joanna

Joanna Bruno
President

J.R. Bruno & Associates

870 Market Street, Suite 462
San Francisco, CA 94102
415.362.1200
626.688.2125 cell
joanna@jrbrunoassoc.com

Visit us at www.jrbrunoassoc.com

* More details about what to look for in FRANdata's assessment of the best and worst franchises are in [Forbes Magazine](#) 's May 2014 issue.

** In 2014, year end estimated 770,000 franchise establishments employed 8.5 million Americans and created \$840 billion in output, according to [IHS Global Insight](#), which prepared a report for the [International Franchise Association](#). That's 3.5% of the total U.S. GDP.