FranchiseBusinessREVIEW™

FRANCHISE FINANCING 101

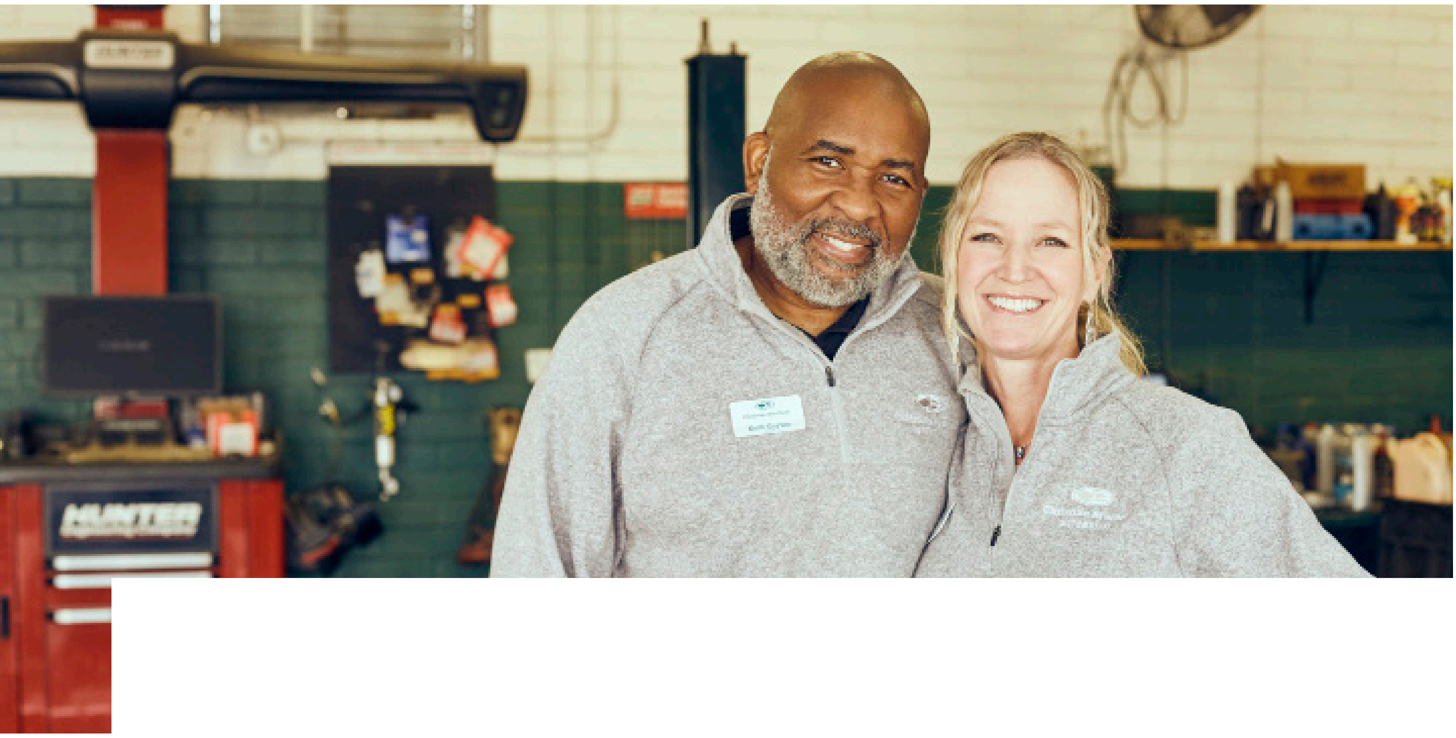
FINANCING OPTIONS

Types of Loans

How to Apply For Franchise Financing

Finding a Franchise For Your Budget

www.franchisebusinessreview.com



TYPES OF
FRANCHISE FINANCING

Financing a franchise is a big step, but don't let the cost discourage you! With some thoughtful planning and creativity, you can find the perfect combination of funds to make your dream of owning a franchise come true.

THE FRANCHISOR

Many franchisors offer financial assistance to new franchisees

SMALL BUSINESS ASSOCIATION

One of the more common forms of financing, the SBA offers a few financing options.

RETIREMENT ACCOUNTS

You can invest up to 100% of your retirement funds into a franchise without penalties.

MUTUAL FUNDS/ OTHER SECURITIES

Security-backed loans enable you to use a financial portfolio as collateral.

UNSECURED LOANS

Banks, credit unions, and lenders can provide fast funding in as little as a few weeks.

ANGEL INVESTORS

Many angel investors or investment groups provide funds in exchange for a direct role.

FINANCING OPTION:

THE FRANCHISOR

In some instances, franchisors provide financing directly through the parent company, but more often, they collaborate with preferred lenders who manage the loans for their franchisees.

PROS:

SIMPLE APPLICATION

FRANCHISOR HAS VESTED INTEREST

MORE FAVORABLE TERMS

CONS:

HIGHER DOWN PAYMENTS

SHORTER REPAYMENT TERMS

HIGHER INTEREST RATES

Some brands may offer to waive or discount the franchise fees, offer a loan based on simple interest with no principal, or offer deferred payments for a period of time. Others will help you connect with outside lenders to get funding. This information can be found in Section 10 of the FDD.

It's also important to note that if you are an independent business owner looking to move into franchising, you may have opportunities to merge your business with an existing franchise system.

Lisa Coleman, a franchisee with Westaff, did just that. "As the owner of an independent staffing company, I had a non-traditional entry into the franchise. I successfully merged my clients into Westaff and received incentives for doing so," she explained.

FINANCING OPTION:

SMALL BUSINESS ASSOCIATION

Since the federal government backs a portion of SBA loans, they typically offer more favorable interest rates and repayment terms than commercial bank loans.

SBA

PROS:

LOW INTEREST RATES

FLEXIBLE USE & BENEFITS

LARGE LOAN AMOUNTS

CONS:

LENGTHY APPROVAL PROCESS

COLLATERAL REQUIRED

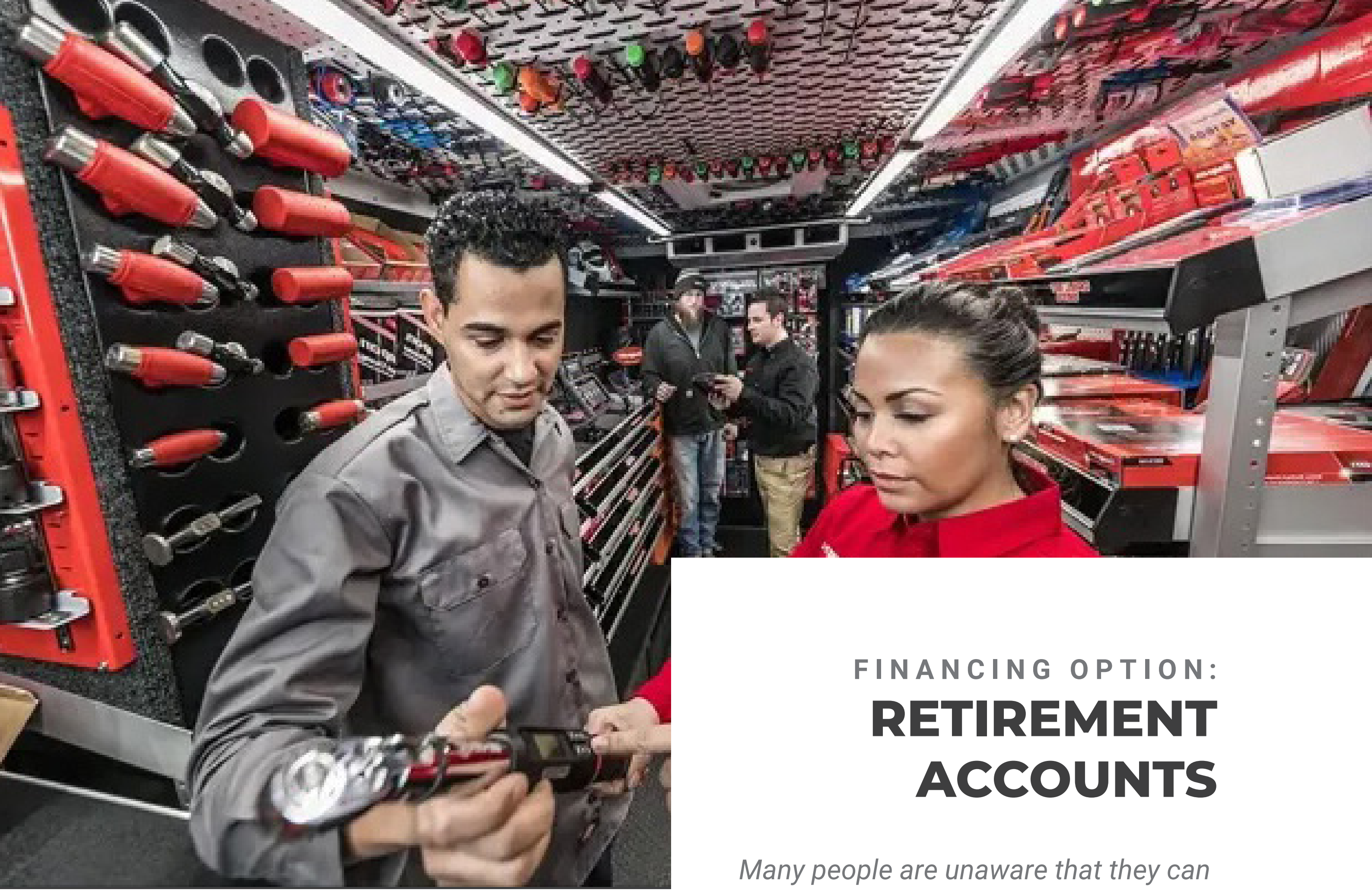
PERSONAL LIABILITY

DOWN PAYMENT OF 10% OR MORE

The 7(a) loan program is the SBA's primary product for general financing. Franchise owners can use this loan for purchasing real estate, acquiring fixed assets, working capital, and even refinancing existing debts. With amounts available up to $5 million, it can be used to start a franchise and cover initial startup costs.

The terms for a 7(a) loan can extend up to 25 years, varying based on the franchisee's intended use of the funds. Interest rates may be fixed (up to Prime + 8%) or variable (Prime + 4.75%).

Unlike the general-purpose 7(a) loan, the 504/CDC loan program is designed for acquiring major fixed assets such as machinery and equipment, and it can also be used for purchasing real estate and remodeling buildings. For instance, a restaurant franchise owner might use a 504 loan to buy commercial kitchen equipment. The maximum amount for the CDC portion of a 504 loan is $5 million, with terms



FINANCING OPTION:

RETIREMENT ACCOUNTS

Many people are unaware that they can invest up to 100% of their retirement funds into a franchise without incurring penalties.

ROBS (Rollovers as Business Start Up) is a loan program that allows the withdrawal of money from a 401(k) or other retirement savings accounts to fund a new business without incurring taxes or penalties..

To qualify for ROBS you must have at least $50k in eligible retirement accounts such as an IRA, 401(k), or 403(b). Your retirement funds can be combined with a spouse's, partner's or traditional business loans.

Although legal, rollovers are considered risky if not done correctly and are viewed with caution by the IRS.extending up to 25 years.

PROS:

TAX-FREE AND PENTALTY-FREE

NO INTEREST PAYMENTS

NO COLLATERAL

CONS:

IRS SCRUTINY

COMPLEX SETUP

SLOWER PROCESS

FINANCING OPTION:

MUTAL FUNDS/ OTHER SECURITIES

Portfolio loans are a lesser-known means of financing but offer considerable benefits if you qualify.

A security-backed loan enables you to take a loan using a financial portfolio, such as a mutual fund, as collateral.

Portfolio loans, sometimes known as stock loans or securities-based lending (SBL), use your assets as collateral. You can use your investment or retirement funds in stocks, bonds, or cash. Portfolio loans can be advantageous for business financing, and they can be especially beneficial to retirees who have investments or retirement accounts that can be leveraged.

These loans allow you to leverage your securities without having to liquidate. Small business owners can usually borrow up to 80 percent of the amount of their portfolio, and the result is access to a revolving line of credit that you can use to fund your franchise.

PROS:

FASTER ACCESS TO FUNDS

LENIENT UNDERWRITING STANDARDS

PERSONALIZED SERVICE

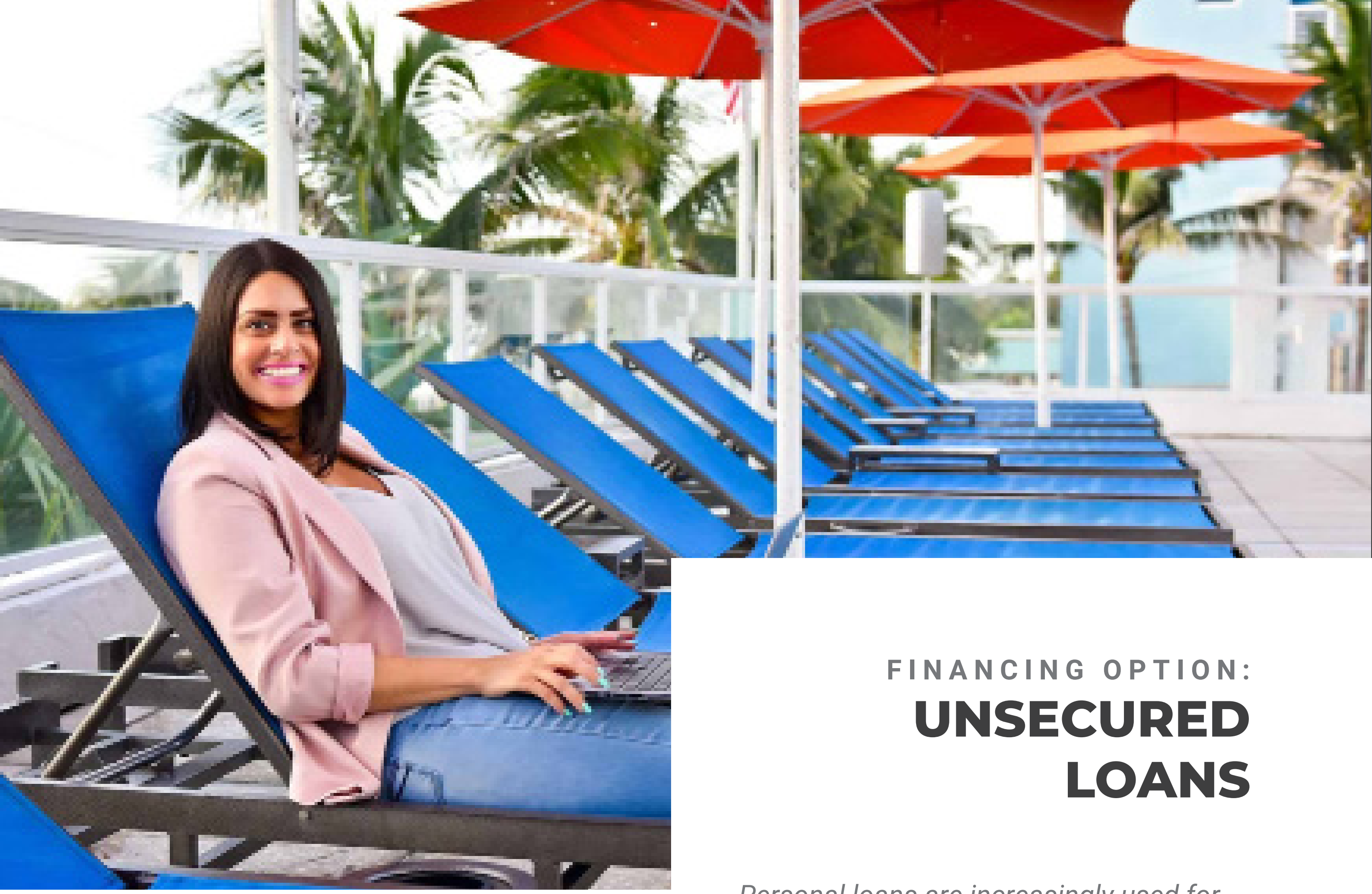
LOW INTEREST RATES

CONS:

HIGHER INTEREST RATES & FEES

DOWNPAYMENT & CLOSING COSTS

MONTHLY DEBT PAYMENTS



FINANCING OPTION:

UNSECURED LOANS

Personal loans are increasingly used for traditional franchises due to their quicker and less stressful application process.

You don't need collateral to qualify for these loans, which can happen in just three weeks. They are a great option if you need a fast funding solution.

Banks and credit unions are good sources for unsecured loans if you have a high credit score. If your credit score is lower than the required range for banks and credit unions, consider a third-party lender.

Personal credit profiles can be used to secure personal loans for funding non-SBA-eligible franchises, such as cannabis, CBD, or emerging brands. Additionally,

Personal loans typically take 2-3 weeks to process, involve minimal paperwork, and do not require the cost of business plans or packaging.

PROS:

FASTER FUNDING

LOWER RISK

DISCHARGED IN BANKRUPTCY

CONS:

HIGHER INTEREST RATES

LONGER APPROVAL PROCESS

MAY NEGATIVELY IMPACT CREDIT

FINANCING OPTION:

ANGEL INVESTORS

Having an angel investor help finance your franchise means securing capital from a high-net-worth individual who not only provides funding but may also offer valuable mentorship and strategic guidance to support your business's growth.

Angel investors typically seek high-growth potential businesses with a strong return on investment. They often look for a solid business plan, a clear value proposition, and a franchise model with proven success.

Building a relationship with the investor and showing that you have the skills and experience to manage the franchise successfully can significantly impact their decision.

Additionally, knowing how to approach and negotiate with angel investors is vital. Angel investors usually invest their own money and may take an active role in the business, providing not just capital but also mentorship and strategic advice. It's important to clearly define the terms of the investment, including the amount of equity they will receive and their level of involvement.

PROS:

FLEXIBLE FUNDING OPPORTUNITIES

NO MONTHLY PAYMENT COMMITMENT

LESS-RIGOROUS QUALIFICATION PROCESS

CONS:

VAGUE TERMS & TIMELINE

DEBT TO EQUITY CONVERSION

LARGE OWNERSHIP REQUIREMENTS

HOW TO APPLY

FOR FINANCING

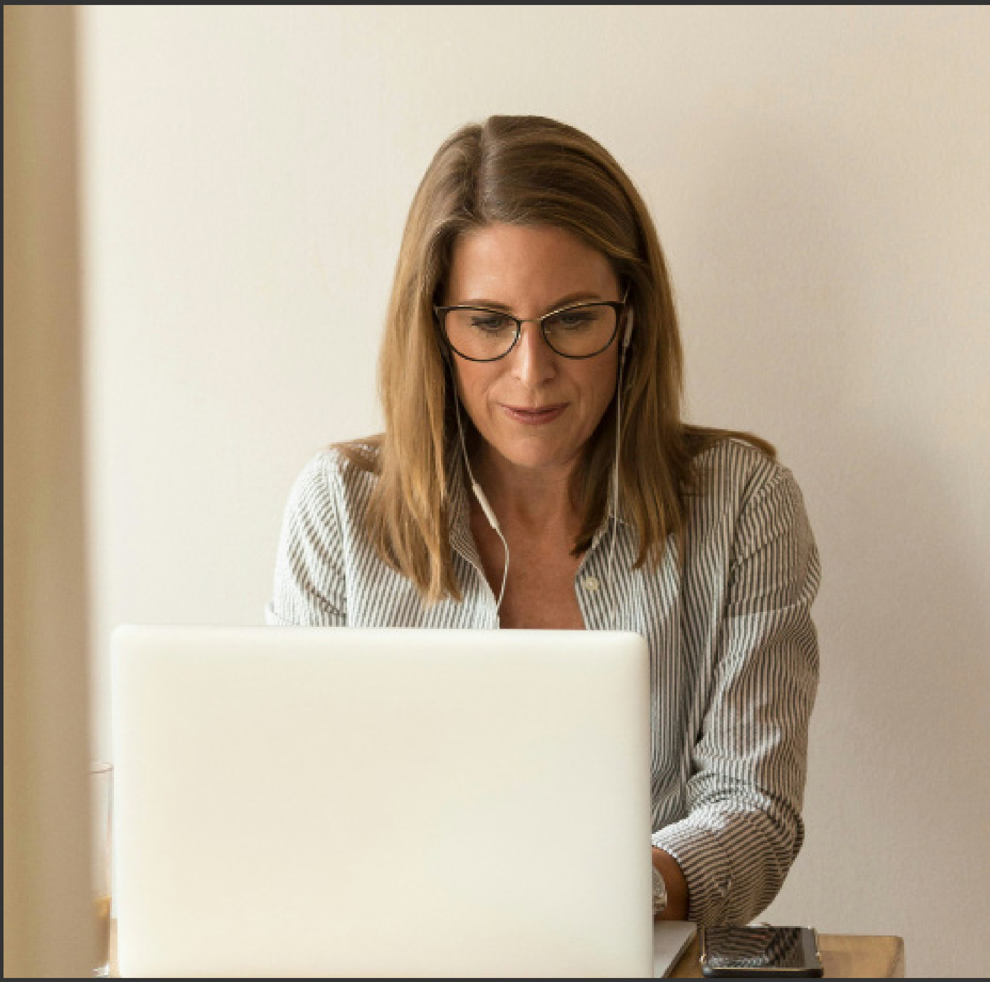
Just like buying a home, buying a business is a major investment. When analyzing your franchise investment options, you should consult a franchise attorney and a financial advisor specializing in franchise funding.

No matter where you go for franchise financing, you'll likely need to produce certain documents to prove your trustworthiness as a borrower. These documents include:

- **Credit history tells lenders how reliable you will be as a borrower based on your past borrowing history.**
- **Personal financial statements—Lenders want to know that you are in good financial health before they hand over a lump sum of money. They will want to see your current bills, debts, and loans, as well as your savings, income, and assets.**
- **A business plan – Lenders will want to see your business plan to understand how you will use the money they are lending you — and determine if your business is a strong investment. Lenders will be more likely to grant you funding if you buy a franchise with a well-known brand name and a proven track record of success.**

FranchiseBusinessREVIEW™

FINDING A FRANCHISE THAT FITS YOUR BUDGET



The good news is that there is a franchise for every budget, as you'll see while looking at the list of top franchises according to those who know best – the franchisees who own them.

Franchise Business Review is committed to helping potential franchisees find the best franchise opportunities available today. Contact us for more information, or check out our most recent list of this year's top-rated franchise brands.