

# Franchise Funding Sources

Thinking of buying into a franchised business, but can't find the cash? Try these five common resources.

Andrew A. Caffey | November 23, 2004

URL: <http://www.entrepreneur.com/article/74290>

"There are more things in life to worry about than just money--how to get hold of it, for example."

*--Anonymous*

Investing in a franchised business can take a lot of money. In fact, the only really intimidating obstacle between you and your dream of opening a successful franchise is financing. The very word is enough to send prospective franchisees screaming into the night. Don't panic--here are all the stops on the way to getting your franchise financed.

**Stop #1: Your Personal Resources.** Conduct an assessment of your own resources before you launch into your franchise idea. First, prepare a personal financial statement (on a generic form from your bank or an office supply store or by using your personal accounting software). You'll use it over and over again as you line up your financing. Also, make copies of your tax returns for the past two years--both the lender and a franchisor providing financing will want to see them. If your Uncle Doug once offered to back you in business, give him a call and take him to lunch. Be sure of what you can count on--you can't afford to go into the business with flimsy promises. Talk dollars and timing with good ol' Doug.

**Stop #2: Your Accountant.** If you don't have an accountant, it's time to get one. Ask for references from friends and family, and find an experienced one who has handled small businesses (tip: Ask existing franchisees in your area for references). Arrange a preliminary interview, discuss your plans, and show the accountant your personal financial statement, the investment estimates from Item 7 of the UFOC and any Item 19 earnings claim information in the UFOC. Talk about how you can calculate a cash-flow picture of the business you're planning and how much financing you need. Ask the accountant to recommend a banker he

or she has dealt with; usually accountants have great leads for their clients.

**Stop #3: The Franchisor.** One thing can be said for franchising as a method of expanding business: It has developed a tried-and-true path for the individual investor. Financing is an important part of that path. In about 30 percent of all systems, the franchisor itself will provide financing directly or through a third-party lender. If this is available from your franchisor, it's laid out fully in Item 10 of the UFOC. Even if the company does provide financing, it's likely to be for only a portion of your total needs. Time for Stop #4.

**Stop #4: The Bank and Specialty Franchise Lenders.** It's fair to say every small business needs a solid banking relationship. Even if you don't find financing at your local bank, you'll need to build a day-to-day service relationship. The place to start is the bank where you do your personal banking. Talk to a banker about your plans and explore their programs.

Also contact independent lenders who specialize in franchise lending. Check out [GE Capital Franchise Finance](#) and [Textron](#), a couple of the larger independent sources.

**Stop #5: The SBA Franchise Registry.** The real secret to bank financing for a franchise investment is the SBA, which has very aggressively rolled out its small-business lending guarantee program. Banks that participate in this program can significantly reduce their lending risks, because the SBA guarantees a large portion of the loan against your failure or inability to repay the loan. Contact the SBA and inquire at banks in your local area; this is a powerful program for new business buyers.

The SBA has enhanced the power of its program by working with franchisors to streamline the application and qualification process, creating the SBA Franchise Registry. Go to [www.franchiseregistry.com](http://www.franchiseregistry.com) for a list of franchisors that have registered their systems with this unique SBA program. If your franchisor is one of the hundreds that are listed, you're in luck--it'll save you lots of time and a ton of paperwork.

*Andrew A. Caffey is a franchise attorney in the Washington, DC, area and*

*a former general counsel for the International Franchise Association. He is also the author of Franchises and Business Opportunities (Entrepreneur Press).*