



LENDING SHORTFALL WILL SLOW JOB CREATION IN 2010

For immediate release

Contact: Alisa Harrison, 202-628-8000

aharrison@franchise.org

www.twitter.com/IFADC

Half of Franchise Business Leaders Cite Access to Credit as Top Concern

WASHINGTON, Dec. 2, 2009—A \$3.4 billion shortfall in lending to franchise businesses in 2010 will result in 134,000 jobs not created and \$13.9 billion in economic output lost, according to new data released today by the International Franchise Association.

“Our data show that while there will be sufficient capital for franchise development in 2010, banks’ continued risk aversion is limiting their willingness to lend,” said IFA President & CEO Matthew Shay. “A slow recovery with limited job growth underscores the importance of protecting and encouraging lending to small businesses, which account for 60 percent of all U.S. jobs. Immediately passing enhancements to government lending programs can shore up the \$3.4 billion shortfall in lending. New franchise businesses can create much needed jobs – which will speed the U.S. economic recovery.”

The updated version of Small Business Lending Matrix and Analysis prepared for the IFA Educational Foundation by FRANData, demonstrates the impact of the continuing credit crisis on the franchising sectors’ ability to recover from the recession, to develop new franchise units, and in doing so, create more jobs for the U.S. economy. Shay said that the Lending report and a new IFA Business Leader Survey are key components of the IFA 2010 Economic Outlook for Franchise Business that will predict the outlook for total jobs, units and economic output across 10 franchise business format sectors. The 2010 Outlook is scheduled for release mid-December.

The Lending report states that \$1 million in franchise lending creates or protects an estimated 40 jobs and generates an estimated \$4.2 million in economic activity.

“Increasing capital flow into the franchising sector can have a very positive impact on the pace of the U.S. economy,” Shay said. “Likewise, constrained capital flow will have a negative impact on franchising sector growth and the U.S. economic recovery.”

The report estimates that banks are expected to lend \$6.7 billion to franchises in 2010 versus the \$10.1 billion that would meet 100 percent of demand. The shortfall can be attributed to banks’ conservative approach to a weak economic outlook and uncertainty in the commercial real estate market. At 100 percent lending, franchise business could create or maintain 305,000 jobs and \$32 billion of annual economic output in 2010. The \$3.4 billion shortfall in lending would result in 134,000 total jobs not created or maintained and \$13.9 billion of annual economic output.

IFA Policy Recommendations

“Franchise businesses are critical to job creation in this country, providing for 21 million jobs,” Shay said. “As Congress and the Administration look for new ideas to stimulate the economy and create jobs, increasing access to capital for franchise businesses should be at the top of the list.”

Shay said that as in 2009, the Small Business Administration will have a critical role in 2010.

FRANdata estimates that if changes are made to the SBA loan programs, available credit could increase in 2010 to \$7.8 billion resulting in 46,000 additional jobs and \$4.8 billion in additional economic output.

IFA has worked throughout 2009 with Congress and the Obama Administration to encourage important changes to the SBA loan programs that would improve this lending outlook, including:

- Increasing the maximum Small Business Administration loan limits from \$2 million to \$5 million.
- Re-institute the borrower fees on all 7(a) loans with amortizations over 15 years while eliminating or reducing lender fees on all 7(a) loans with amortizations under 15 years or alternatively on true start-ups with all amortizations.
- Make the 90 percent guarantee permanent for all loans with amortizations under 15 years, and adding a 100 percent guarantee for the first two years of a franchise start-up. For loans with amortizations over 15 years, restore the 75 percent guarantee.

Franchise Business Leader Sentiment

The reports’ conclusion supports the results of a new IFA Franchise Business Leader Survey also released today. Franchise business leaders are more optimistic (51.3 percent) about how the U.S economy will perform in the next 12 months than they were a year ago (24.6 percent). These business leaders have a less optimistic outlook for unit growth than 12 months ago due to ongoing challenges in accessing credit for new franchise prospects and for existing franchisee expansion. While more than 78 percent of those surveyed expect moderate to significant increases in franchise units, this compares to nearly 86 percent of those surveyed a year ago.

The survey shows the issues of greatest concern currently and in the year ahead are financing and access to capital. Nearly half of the survey respondents (49.2 percent) ranked “financing and access to capital” as their greatest concern followed by nearly one quarter of survey respondents (23.8 percent) who ranked “franchise sales/development” as their next greatest concern.

Survey respondents are somewhat optimistic about business conditions in the next 12 months than those surveyed a year ago. More than 40 percent of respondents stated that they expect business conditions will be “somewhat good” in the next 12 months, compared to only 25 percent of those surveyed in November 2008. Less than 20 percent (18.8 percent) stated they expect business conditions to be “somewhat poor,” compared to one-third (33.5 percent) in November 2008.

Half of the franchise business leaders surveyed indicated their employment levels to “stay about the same” in the year ahead, while 45 percent stated they plan to increase employment moderately to significantly, and only 5 percent stated they plan to decrease employment moderately.

To view the executive summary of the updated Small Business Lending Matrix and Analysis [click here](#).

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About The International Franchise Association

The International Franchise Association, the world's oldest and largest organization representing franchising, is the preeminent voice and acknowledged leader for the industry worldwide. Approaching a half-century of service with a growing membership of more than 1,250 franchise systems, 10,000-plus franchisees and more than 500 firms that supply goods and services to the industry, IFA protects, enhances and promotes franchising by advancing the values of integrity, respect, trust, commitment to excellence, honesty and diversity. For more information, visit the IFA Web site at www.franchise.org.

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