

Where to Go When You Can't Find the Dough

Where to find financing in the no-loan era. First hint: Start with your franchisor.

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Your franchisor. To keep their growth from stalling, many franchisors are offering unprecedented levels of franchisee assistance (see "[Turn to Your Franchisor](#)"). Some are making loans themselves, while others are discounting franchise fees or letting new franchisees pay their fees over time.

"Franchisors are offering incredible deals," says business-acquisition specialist [Ted Leverette of Partner On-Call Network](#) in Florida. "Some are waiving fees completely. Choose a franchisor who's willing to share the risk with you."

At the very least, your franchisor should help you beef up your loan paperwork. For instance, some franchisors are purchasing bank credit reports on their company from [FranData](#), which explain franchisor financials and present the concept in a positive light.

Get a UBLOC. The acronym stands for unsecured business line of credit. Don Johnson, president of loan broker Diamond Financial Services in New Jersey, says UBLOCs have become popular, especially for lenders who need less than \$100,000, an amount for which a traditional SBA loan is difficult to obtain. You have to have a credit rating around 700 to qualify for a UBLOC, Johnson says, though a track record of past business success may get you in with a lower score. Rates are higher than with an SBA loan, but Johnson says UBLOC approval is usually quicker--a day or two versus weeks for a traditional loan. Microloans. If you need less than \$35,000 in funding, many lenders won't want to help. But you can seek a microloan from lenders ranging from the [SBA](#) to nonprofits such as [Accion USA](#) or [Kiva](#). Johnson says it is easier to qualify for the mini-SBA than a traditional loan. Rates tend to be competitive, and a microloan can give you some operating cash while you build up your credit to qualify for a larger loan.

Your landlord or your vendor. Anxious landlords may be generous with lease terms or even pay for needed store buildouts to make a deal happen. At Siegel Financial Group in Conshohocken, Pa., president Nate Greenberg says he recently worked with a quick-serve restaurant franchisee whose landlord offered nine months' free rent and paid \$250,000 toward building the franchisee's facility.

"In retail," he says, "landlords are hurting and need to do things to make sure their space gets a tenant."

By the same token, vendors may be desperate to sign up new accounts. [Partner On-Call's Leverette](#) suggests asking vendors if they'd be willing to provide goods free or at a steep discount in exchange for an equity stake in your company. If not, ask for long initial terms--say, net 90 days instead of net 30--which would allow you to sell the goods first and pay the vendor off with customers' money.

Liquidate your assets. Do you have a boat, a vacation cabin, fine art, a life insurance policy with equity, or other valuable assets? Consider skipping the arduous loan process and resulting interest costs and sell your assets for cash.

"I have a saying: 'Don't climb the mountain if you can walk through the valley,' " Greenberg says.

Another popular option is rolling over a 401(k) retirement plan, he notes. If structured properly, this can be done without tax penalty. Companies such as [Benetrends](#) help franchisees set up a new corporate structure and company 401(k). The old 401(k) is rolled into the company retirement plan, from which it can be borrowed tax-free for business use.

Liquidate the business's assets. If you're buying an existing franchise, sell company assets to generate needed cash. For instance, [Leverette](#) knows a buyer who bought an existing moving and storage company, negotiating a deal to pay half the purchase price upfront and half a month later. Once the buyer took possession of the business, he leased trucks and sold off the company vehicles, generating the money to pay the rest of the purchase cost.

Sluggish bank lending has thrown a wrench into many franchisors' growth plans. To help franchisees move forward, many have created financial assistance programs to help open new units.

For instance, Marco's Pizza franchisee Pamela Bone, 43, took advantage of the Marco's in-house lending program to open her location in Columbia, Ga., last February. The former bank finance manager had a \$200,000 bank loan in process for a month when the bank changed its lending criteria and suddenly declined her application because she didn't have restaurant experience.

The in-house financing is a "captive lease," in which Marco's leasing company, MFS Leasing, lends money to franchisees to cover construction, equipment leasing and other store-opening costs. Marco's chief financial officer, Ken Switzer, says the lease program began two years ago, just before bank financing became difficult to get. Because Ohio-based Marco's controls the process, it can approve loans quickly. Bone says she likely would have lost her site if she'd had to start over in applying for traditional bank loans. Last summer, Marco's added another financing vehicle for franchisees, an equity fund that will raise up to \$5 million to be used for financing franchisee store costs.

Franchisor Edible Arrangements in Connecticut is also jumping into both captive leasing and the venture-finance business, says CEO Tariq Farid. The company's venture fund has \$5 million raised privately, and Farid hopes to grow it to \$10 million.

So far, Edible's leasing program is available only to Edible franchisees, who can get up to \$100,000 to cover equipment costs. But Farid Capital Corp. may eventually broaden to offer financing to the franchising industry in general, Farid says.

Other chains, including Florida-based CruiseOne, are offering straightforward loans to cover startup costs. Senior vice president and general manager Dwain Wall says his travel company began offering new franchisees financing for \$7,300 of their \$9,800 franchise fee in August. Because CruiseOne uses a home-based business model, the fee usually constitutes most of the startup cost.

The loan carries an interest rate of prime plus 6 percent--not exactly cheap, but moderate in today's lending climate. With more than 500 locations and plans to open up to 100 more in the next 12 months, Wall says it's important to help CruiseOne franchisees get started to keep growth on track.

"A lot of people don't have \$10,000 right now and don't want to cash in their 401(k) either," he says. "We need to help them with the upfront fee until they get on their feet."

"Hard" money. This is a finance-industry term for getting a loan from a private party. It's usually expensive--interest rates range from 4 percent to 8 percent above the going rate for traditional loans, [Leverette](#) says. Online peer-lending sites such as [raisecapital.com](#) and [prosper.com](#) facilitate such loans by letting many lenders contribute a small amount to make up your loan total.

Whether you get hard money from a person or an online site, rates tend to be high. But if you have nowhere else to turn, either one can provide a source of quick cash.

Family and friends. They're listed last for a reason: Borrowing from people you love is fraught with peril. But with retirement accounts down, relatives might be interested in an entrepreneurial investment opportunity, says Siegel Financial's Greenberg. If you do go the friends-and-family funding route, be sure to thoroughly document the loan terms and ownership stakes involved. Websites such as [Virgin Money](#) and [ZimpleMoney](#) make it easy to track payments.

Many franchisors have stepped up their financing assistance to help new franchisees get started despite the tight lending market. Here's a sampler of franchisor offers. --C.T.

Franchisor: [CruiseOne](#)

Location: Fort Lauderdale, Fla.

Offer: Providing loans for up to \$7,300 of the \$9,800 franchise fee, which usually makes up the bulk of a new franchisee's startup cost.

Franchisor: [Edible Arrangements](#)

Location: Wallingford, Conn.

Offer: Up to \$100,000 in equipment leasing financed through new company subsidiary Farid Capital Corp., which has raised \$5 million privately and hopes to expand the fund to \$10 million.

Franchisor: [Marco's Franchising](#)

Location: Toledo, Ohio

Offer: Marco's leasing company, MFS Leasing, lends money to franchisees to cover construction, equipment and other store-opening costs. Last summer, a Marco's affiliate also introduced an equity fund that plans to raise \$5 million to lend to franchisees, granting Marco's a minority stake in the franchise until the funding is repaid.

Franchisor: [Million Dollar Hole In One](#)

Location: Valrico, Fla.

Offer: Willing to finance \$10,000 of the \$25,000 franchise fee. Franchisees repay the loan gradually as they purchase tickets wholesale from the franchisor for the hole-in-one contests the franchise puts on at golf courses. Franchisees pay a higher rate for the tickets until the loan is repaid.

Franchisor: [Volvo Construction Equipment Rents](#)

Location: Asheville, N.C.

Offer: The carmaker's construction-rental division utilizes a finance affiliate, Volvo Financial Services, helping speed loan approvals. The franchisor enhanced its finance offerings in 2009, offering several months of no payments, depending on the economy. It also upped its loan limits to include loans for working capital and other intangibles, so qualified franchisees can now tap Volvo to finance up to their full startup cost of more than \$5 million.