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# Insider

## First forum luncheon wins approval of franchisors and franchisees

Nearly 50 Texas franchisors and franchisees participated in the inaugural Franchise Leadership Forum (FLF) on February 24 in Las Colinas (Irving, Texas). The topic was "Financing: How to Get the Banker to Say Yes" and the best SBA, private-equity, IRA and 401k rollover experts in the U.S. (Bob Coleman, Founder of Coleman Publishing, Bob Rodi, President of Mount Pleasant Capital Corp and Geoff Seiber, President and CEO of FranFund, Inc.) were on the same stage for the first time ever. Those that participated rated it a resounding success. Furthermore, more than two-thirds said they would return for the next Forum scheduled for June 23, 2010 regardless of the topic.

"The feedback from the participants underscores the importance and the need for quality opportunities for franchisors and franchisees to network, to exchange information and ideas, and to learn new information," commented Darren Smith, founder of the FLF. "That's why we created the Forum and why we'll continue to produce future programming in the Dallas-Fort Worth market, and eventually other markets in Texas."

Honorary Chair, Frank Gambina, 7-Eleven, said he "walked away with learning that

*Asked to describe their FLF experience in one to three words, some of the participants said...*

**Worth every minute**

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# Luncheon wins approval of franchisors & franchisees

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can help our organization do a better job of helping our franchisees achieve their goals.” He pointed out that 7-Eleven is looking for alternatives to “help support our current and potential franchisees realize their dreams of owning a franchise business in today’s economy. The information the FLF provided opened a number of doors to make that a reality.”



*Bob Rodi cautioned Franchisors that lenders don't want to hear, "Grandma and Uncle Charlie will lend the down payment."*

instructor. They rarely, if ever, meet with expectations. In this instance, however, I was impressed with the venue, but mostly the quality of the participants. This may speak to the urgency and relevance of the topic, e.g. financing, but I think it also demonstrates that the Dallas/Ft. Worth metro area has a cadre of dedicated franchise professionals who are willing to come together to support each other. In my humble opinion, the Forum was a stellar example of the kind of grassroots networking and support that makes franchising one of the great and uniquely American industries.”

The FLF wasn't criticism-free! Several participants said they wanted “more time for discussion” and “more time for networking” and others asked for deeper coverage of content. “That’s the kind of feedback we need to hear,” said Smith, who directs similar Forums for two other industry groups. “We’ll make some adjustments for June and the FLF will improve with each Forum.”

Franchise veteran Geoff Seiber, president of FranFund, Inc., and one of three experts at the Forum, said the FLF delivered “one of the highest quality and most attentive audiences” he has ever addressed. “From a networking perspective,” he continued, “I thought it was well done...One of the keys to this meeting was keeping the group to primarily franchisors and franchisees and keeping those to high level participants.”

Another speaker, Bob Rodi, president of Mount Pleasant Capital Corp., said, “To be perfectly frank, I was pleasantly surprised with the outcome of the FLF’s first meeting. I have been to many such meetings as both participant and speaker/

Relevant and enlightening  
Participant comments

## FLF speaker reports “SBA lending up 100%”

FLF speaker Robert Coleman, publisher of *The Coleman Report*, which includes a list of the 30 Best and Worst Franchises (based on SBA lending) told FLF attendees that the SBA’s 7(a) stimulus plan is working. “For the federal government’s 2010 first quarter (which was Oct-Dec 2009), the SBA approved 12,393 7(a) loans for \$3.8 billion – a 100% increase over the same period a year earlier.”

Furthermore, Coleman said 49 of the top 50 lenders posted an annualized increase in 7(a) loan production. His report included a list of the top 50 lenders, with Wells Fargo Bank leading the pack after making 681 loans. Texas banks appearing on the list: United Central Bank (Garland), Plains State Bank (Humble), First Western (Dallas), Community Bank (Granbury), and Southwest Securities (Dallas).

*Bob Coleman said the reality is that, “The Banks decide the winners and losers.”*



Good table and panelists

— . . . —

Insightful

Participant comments

## Bob Rodi explains new challenges in the franchise lending world

Franchisors and franchisees of the past got used to the following lending environment:

- Plenty of capital to go around
- Lots of qualified applicants
- Easy credit . . . Easy growth
- Volume driven credit philosophy
- Very few obstacles to growth

But franchisors and franchisees must now adjust to the lending environment of the present:

- Window on capital is shut tight
- Shrinking pool of qualified applicants
- Credit philosophy is "operationally" focused
- Obstacles to growth everywhere
- Less construction may cause shortage of good locations in the future

Rodi said these changes spell new requirements for franchising beginning with: "Performance Matters – A Lot!" He pointed out that lenders now expect to see system metrics, franchisor operational and financial metrics, and unit performance metrics.

Moving forward, Rodi said here's what you can expect of the lending environment:

- Lenders will be extremely cautious.
- Death of the Secondary Market means lenders will have a different mindset. Focus will be on managing risk as opposed to originating loans.
- Franchisors need to modify their pre-qualification process.
- Franchisors should consider "creative" finance and risk sharing programs to achieve growth goals.
- Perception of risk (lending to franchisees) has dramatically changed (for the worse).

What do lenders really want to know? Rodi said:

- Applicants have sufficient



*Each table had their own small group discussion at the Spring FLF.*

tangible net worth to support the loan request.

- Applicants have outside income and will not be totally dependent on the start-up business.
- There are no undisclosed "partners" providing equity. If there are, they need to be "on the deal."
- Applicants are stable and well established in their operating territory (they haven't just moved into the area).
- The Franchise Brand is well established and the applicant is not opening a new territory.
- How the loan will be repaid.

What do lenders not want to hear? Rodi said:

- "We don't have a presence in the area. This will be our first location."
- "Grandma and Uncle Charlie will lend us the money."

- "The applicant has a lot of land and cash—in Yemen, Korea or Bangladesh."
- "The applicant will be getting a green card 'shortly'."
- "The applicant lives in Lake Tahoe but his nephew, who lives in Peoria where the store is located, will be the operator."

Rodi told franchisors: "Be prepared to stand behind your franchisees! . . . Lenders are no longer willing to take the risk of opening stores simply based on the financial qualification of the applicant. Franchisors must demonstrate a commitment, at the very least, to keep (failing) units open until they can be sold."

Still to come . . . Rodi said to expect, "The emergence of franchise captive finance companies and possibly co-ops with smaller franchise companies coming together to provide financing for their franchisees."



Informative, stimulating,  
educational

*Participant comments*





*Geoff Seiber explains franchisees can become their own employer and establish a C Corp. with stock and a 401(k).*

## Seiber adds information to get tax-free, penalty-free funding

Geoff Seiber, co-author (with Dr. John P. Hayes) of the new eBook: *Help Your Banker Say Yes! What Franchisors and Franchisees Need to Know to Get Financing Today*, shared information with FLF participants about IRA and 401k Rollovers as a means of funding a franchise. The following is an excerpt on this topic from *Help Your Banker Say Yes!*:

If you have a retirement fund and you change employers, you have several options, including:

1. Leave the fund where it is . . . the majority of people choose this option.
2. Move the fund into a new account, such as a self-directed IRA.
3. Move the fund to your new employer's 401k, thus consolidating your retirement savings in one fund. Most people aren't aware of this option!

Most people (franchisors and franchisees) aren't aware that they can become their own employer and establish a C Corporation with stock and a 401k. Becoming your own employer puts you into the enviable position of self-funding your own business, tax-free! You can move – or what the Internal Revenue Service refers to as rollover – your existing retirement money into your new employer's 401k, and the cash can be used to buy and operate a franchise. It's tax-free, penalty-free (if done correctly), it's legal, and it may be your best option for funding your business, particularly if you don't have other resources, or you can't qualify for a traditional loan.

The 401k Rollover has made a good name for itself among franchisors, and they frequently recommend that their prospective franchisees consider it as an option. Here are two reasons why:

- If the franchise acquisition is a small investment – under \$150,000 – franchisors know that lenders aren't attracted to small loans. There's no money to be made processing small loans, so lenders avoid them. That makes a rollover more attractive. Rollover money can be used to pay for the franchise fee, and to buy equipment. When you don't have collateral, or you're buying a business that provides a service from your home, a vehicle, or a small office, the 401k Rollover may be your best choice for funding your business.
- After a rollover, you can use the cash as equity to qualify for a conventional or SBA-guaranteed loan. You'll likely need a cash injection of 30% to secure a loan. In the past, borrowers used equity in real estate, i.e. their personal residence, to qualify for a loan. Now you can use rollover money for your cash injection.

A 401k rollover may not be the right option for you, but it continues to make a difference for thousands of franchisees that utilize this strategy every year.

## Looking for financing? Five takeaways from Robert Coleman

1. Banks choose winners and losers
2. Go Local!
3. All lending is personal
4. Equity, equity, equity
5. Franchise & Personal Brand matters

In today's lending environment, the banks (the lenders) decide who will and who won't get a loan, unlike in the past when it was much easier for a qualified applicant to get funding. That means it's now important to communicate with lenders (that's something franchisors and franchisees have not felt the need to do in the past). Coleman encouraged franchisors to proactively contact lenders and promote the value of their franchise and personal brands.

*Bob Coleman explained that lending is local. Now the community banks are some of the best sources for lending to franchisors and franchisees. But, most community banks know little about franchising.*



Lending is now local – the national franchise lenders exist no more! Now the community banks are the best sources for lending to franchisors and franchisees. But unfortunately, most community banks know little about franchising! Furthermore, they don't always have the resources (or the desire) to underwrite franchise loans. This creates a huge opportunity for franchise companies that develop programs to educate the lenders.

Lenders are most likely to respond to a personal approach from both franchisors and franchisees. Granted, equity must be proven for a loan to be approved, but equity without a strong franchise brand, or personal commitment to a brand, is not enough today to win a lender's confidence.