

Greetings Friends and Lenders:

I am looking forward to “seeing” many of you again during the NAGGL Spring Conference. 2020 was a challenging year and the effects of the pandemic have shifted the landscape of franchise lending. Evolutionary changes that we were expecting over the next 5-10 years were forced upon the industry in 6-12 months.

I wanted to reach out to you all directly about a situation that is gaining steam and that everyone should be out in front of. FRANdata has been seeing an increasing number of workouts in special asset groups relating to SBA franchise loans. In the cases we have seen already, the SBA is requesting lenders collect specific documentation from FRANdata. This has led to a lot of confusion in the process for lenders.

FRANdata is the ONLY source for SBA Eligibility documentation and decisions for loans disbursed prior to the creation of the SBA Directory in October 2017. If you are working on a submission to the Loan Guarantee Processing Center for a franchise loan, please reach out to my team so we can improve your chances of success and help prevent losses to the bank.

Every day, FRANdata helps SBA Franchise Lenders accomplish underwriting, portfolio management, and business development objectives. In the following three attachments, you will find:

- ▶ IFA-FRANdata 2021 Economic Forecast
- ▶ How Lenders are Leveraging FRANdata Information
- ▶ Success Stories from Lenders

I cannot wait until we can all see each other in person again at a live event. Please reach out to me to set up some time to catch up during or after the conference.

Paul Santomauro

Director of Lending and Risk Products

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LEADERS IN FRANCHISE LENDING RELY ON THE FRANCHISE REGISTRY

Top franchise lenders have seen fundamental growth by leveraging the franchise registry. The Franchise Registry provides a unified source for business development, franchise analytics and loan approval needs. Banks that have nearly a trillion dollars in assets, rely on FUND reports and the Franchise Registry to underwrite franchise credit and find new franchise partners.

Supporting More Than \$770M in Franchise Loans Every Year.

- ▶ Franchise Registry Subscribers have seen an increase of 15% to close to 70% on their franchise loan volume after leveraging the tools on the Franchise Registry
- ▶ Franchise Registry Subscribers have avoided more than \$13M in loan failures by heeding analysis on one franchise brand alone.
- ▶ One BOD originated \$5 million in loan volume as a result of having access to the Franchise Registry service
- ▶ Assisted one bank in overcoming internal reservations around financing a franchise start-up which led to a \$50 million a year franchise portfolio.

Franchise lending is different than small business lending, and we recognize that they need to be evaluated and monitored differently than the rest of our portfolio. By making the FUND Score an integral part of our growth & portfolio management strategy, we are able to finance small businesses more efficiently and with greater risk reduction than ever before—balancing our role as a strong supporter of franchise growth with that of being a responsible SBA lender.

Brian Zern

SVP Special Assets and Loan Servicing,
Celtic Bank

ECONOMIC OUTLOOK

FOR FRANCHISING

EXECUTIVE SUMMARY

Assuming control of the COVID-19 pandemic is forthcoming this year, FRANdata predicts that by year-end, franchising will have recovered to nearly 2019 levels in most metrics: business growth, employment, economic outlook, and contribution to the GDP.

- FRANdata projects that more than 26,000 new franchised business will open in 2021, recovering most of the losses felt in the previous year. Franchises will employ some 8.3 million people, adding nearly 800,000 new jobs.
- Much of this employment will be in the retail, food, and services industries and will be for lower-skilled workers, a group that has been disproportionately hurt by the economic downturn.
- Total franchise output is projected to grow by 16.4% and contribute a total of \$780 billion to the US economy.

Franchise Business Economic Outlook: 2017-2021					
	2017	2018	2019	2020 (Est.)	2021 (Proj.)
Establishments	748,752	760,476	773,603	753,770	780,188
Percentage change		1.6%	1.7%	-2.6%	3.5%
Employment	7,975,179	8,207,599	8,434,090	7,491,456	8,252,929
Percentage change		2.9%	2.8%	-11.2%	10.2%
Output (\$ billions)	\$720.4	\$760.3	\$787.5	\$670.0	\$780.0
Percentage change		5.5%	3.6%	-14.9%	16.4%
GDP (\$ billions)	\$427.5	\$452.1	\$473.4	\$446.3	\$477.4
Percentage change		5.8%	4.7%	-5.7%	7.0%

Source: FRANdata

PREPARED BY

ECONOMIC OUTLOOK

FOR FRANCHISING

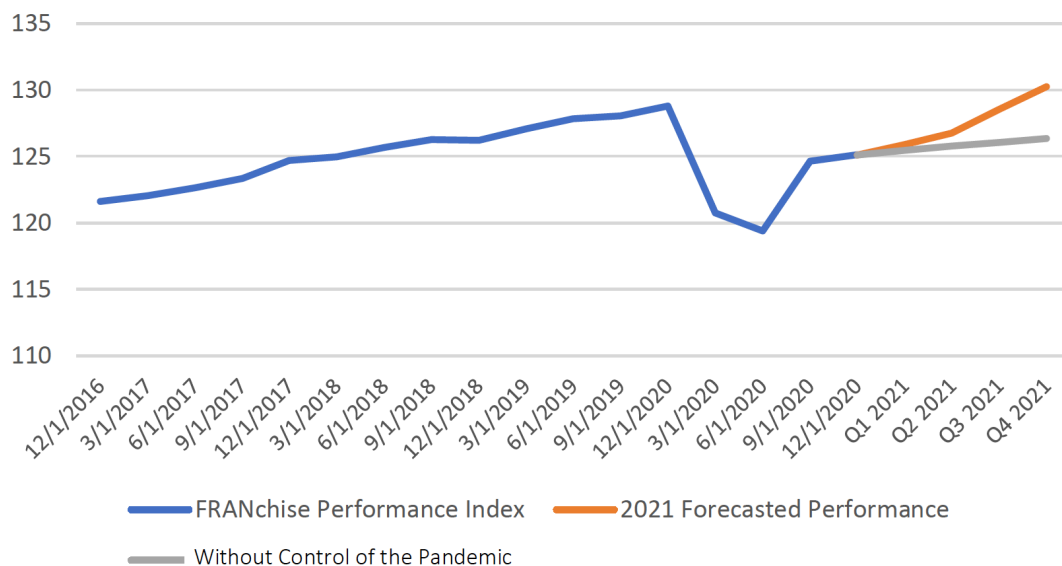
EXECUTIVE SUMMARY

2021 FRANCHISE PERFORMANCE INDEX

Currently, American consumers have the highest level of personal savings since the mid-'70s. That spending has the potential to drive GDP growth over 6% per quarter in the second half of 2021. Assuming progress is made with controlling the pandemic, the recovery will be continuing its V-shaped trajectory with the US economy entering 2022 in a stronger position than it was at the end of 2019.

Alternatively, if there is no control of the pandemic, that would mean a slowdown of the progress by more than 3%, translating to more than 20,000 unopened franchise units and 800,000 jobs not created.

FRANchise Performance Index 2021 Forecast



Source: FRANdata

ECONOMIC OUTLOOK

FOR FRANCHISING

EXECUTIVE SUMMARY

INDUSTRY/SECTOR OUTLOOK

Changes in operations and consumer demand will have an impact on the industry. It is expected that new business openings will shift away from larger employers, such as hotels and sit-down restaurants, and more automation in all businesses will change the employment landscape. We expect the most growth in the commercial and residential services industry, as well as continued strength with Quick-Service Restaurants (QSR).

Much of the recovery is expected to be in the retail, services, lodging, and food industries. New employment will be predominantly for lower-skilled, lower-wage positions, which should be attractive to a portion of the population affected disproportionately by the economic downturn.

Franchise *Economic Outlook By Industry*: 2021 Forecast

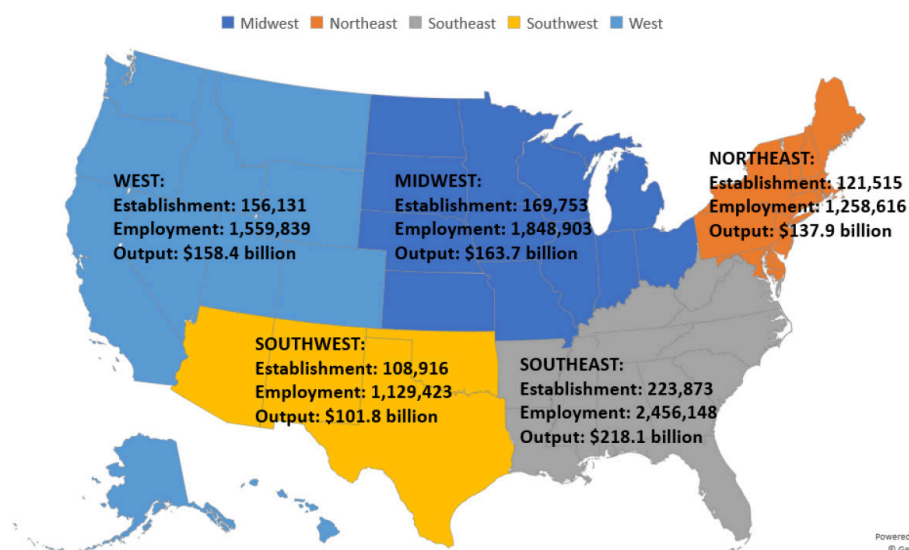
	Establishments					Employment					Output (\$Billions)				
	2019	2020 (Est.)	2021 (Proj.)	19-20	20-21	2019	2020 (Est.)	2021 (Proj.)	19-20	20-21	2019	2020 (Est.)	2021 (Proj.)	19-20	20-21
Commercial & Residential Services	67,226	73,116	75,627	8.8%	3.4%	252,803	253,682	301,706	0.3%	18.9%	\$45.8	\$49.3	\$53.3	7.7%	8.0%
Real Estate	65,307	66,332	68,657	1.6%	3.5%	262,130	245,437	285,820	-6.4%	16.5%	\$55.3	\$48.4	\$60.8	-12.5%	25.7%
Retail Food, Products & Services	155,649	157,538	162,669	1.2%	3.3%	1,061,686	1,014,127	1,115,571	-4.5%	10.0%	\$118.3	\$121.1	\$127.1	2.3%	5.0%
Business Services	106,936	107,789	110,241	0.8%	2.3%	650,489	588,475	670,591	-9.5%	14.0%	\$106.0	\$93.1	\$105.8	-12.2%	13.7%
Lodging	29,706	27,136	27,931	-8.7%	2.9%	662,382	446,299	557,705	-32.6%	25.0%	\$78.0	\$40.9	\$66.0	-47.5%	61.2%
Personal Services	118,825	110,050	113,907	-7.4%	3.5%	547,094	475,580	524,450	-13.1%	10.3%	\$39.3	\$26.0	\$35.8	-34.0%	37.7%
Quick Service Restaurants	196,794	183,543	191,146	-6.7%	4.1%	3,880,612	3,544,759	3,786,002	-8.7%	6.8%	\$267.9	\$241.0	\$265.0	-10.1%	10.0%
Table/Full Service Restaurants	33,160	28,266	30,010	-14.8%	6.2%	1,116,894	923,097	1,011,082	-17.4%	9.5%	\$76.5	\$50.3	\$66.3	-34.3%	31.9%
Total	773,603	753,770	780,188	-2.6%	3.5%	8,434,090	7,491,456	8,252,929	-11.2%	10.2%	\$787.5	\$670.0	\$780.0	-14.9%	16.4%

ECONOMIC OUTLOOK

FOR FRANCHISING

EXECUTIVE SUMMARY

2021 Franchising Outlook by Region



STATE BY STATE OUTLOOK

Franchise businesses support state economies through job creation, promotion of output, and GDP contribution.

FRANdata forecasts that the states expected to sustain the highest franchise business growth in 2021 in order are Ohio, Florida, Michigan, Colorado, Texas, Georgia, Arizona, Virginia, North Carolina, and Wisconsin (based on a weighted scale of factors such as population growth, job growth, median household income growth, unemployment, and future business environment expectations).

Franchise growth in Arizona, Florida, Texas will be driven by increasing consumer demand and labor force participation and will benefit from the influx of masses moving to those states.

Based on FRANdata's projections, the Southeast region has the largest number of franchise establishments and is expected to hire approximately 2.5 million workers in 2021, generating \$218.1 billion in output to the US economy. The Midwest is also forecast to experience extensive franchising activity in 2021, with a total of almost 170,000 franchises supporting 1.8 million jobs and contributing \$163.7 billion in output.

2021 STATE BY STATE FRANCHISE ECONOMIC OUTLOOK

	Franchise Establishment (in Units)	Franchise Employment	Franchise Output (in Millions)
ALABAMA	12,836	132,516	\$10,766
ALASKA	1,290	10,412	\$1,143
ARIZONA	18,057	192,410	\$18,211
ARKANSAS	7,240	73,954	\$5,954
CALIFORNIA	83,349	809,096	\$82,302
COLORADO	17,251	167,936	\$15,914
CONNECTICUT	7,500	88,925	\$10,464
DELAWARE	2,363	25,813	\$2,847
DISTRICT OF COLUMBIA	1,398	22,274	\$3,378
FLORIDA	58,632	646,435	\$60,433
GEORGIA	28,204	295,984	\$25,598
HAWAII	3,087	51,621	\$6,111
IDAHO	4,206	41,042	\$3,133
ILLINOIS	29,659	337,495	\$34,819
INDIANA	16,605	192,013	\$15,408
IOWA	8,225	79,993	\$6,832
KANSAS	8,014	79,072	\$6,707
KENTUCKY	10,836	125,860	\$9,593
LOUISIANA	11,381	116,733	\$10,524
MAINE	2,508	24,140	\$2,206
MARYLAND	13,981	157,171	\$16,085
MASSACHUSETTS	12,335	116,563	\$12,768
MICHIGAN	22,585	241,499	\$19,569
MINNESOTA	15,076	153,057	\$14,240
MISSISSIPPI	6,636	65,655	\$5,394
MISSOURI	15,155	161,751	\$14,277
MONTANA	2,956	24,398	\$2,043
NEBRASKA	5,762	56,726	\$5,151
NEVADA	8,398	101,947	\$10,986
NEW HAMPSHIRE	3,253	28,710	\$2,937
NEW JERSEY	19,592	198,416	\$22,284
NEW MEXICO	4,889	55,570	\$4,585
NEW YORK	30,087	318,722	\$39,209
NORTH CAROLINA	27,899	333,662	\$29,354
NORTH DAKOTA	2,417	27,323	\$3,153
OHIO	28,959	343,048	\$28,523
OKLAHOMA	9,941	95,918	\$8,063
OREGON	9,474	86,892	\$8,177
PENNSYLVANIA	26,570	272,405	\$26,200
RHODE ISLAND	2,194	19,183	\$2,083
SOUTH CAROLINA	14,281	152,224	\$12,710
SOUTH DAKOTA	2,720	23,412	\$1,995
TENNESSEE	18,524	215,024	\$19,053
TEXAS	76,029	785,524	\$70,970
UTAH	8,053	79,135	\$6,754
VERMONT	1,132	8,568	\$854
VIRGINIA	22,465	242,259	\$22,725
WASHINGTON	16,301	155,245	\$16,758
WEST VIRGINIA	3,541	33,567	\$2,665
WISCONSIN	14,577	153,513	\$13,033
WYOMING	1,766	32,114	\$5,080

Banks that have nearly a trillion dollars in assets, rely on
FUND reports to underwrite franchise credit.

CLIENT TESTIMONIALS

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Franchise lending is different than small business lending, and we recognize that they need to be evaluated and monitored differently than the rest of our portfolio. By making the FUND Score an integral part of our growth & portfolio management strategy, we are able to finance small businesses more efficiently and with greater risk reduction than ever before—balancing our role as a strong supporter of franchise growth with that of being a responsible SBA lender.

- **Brian Zern**, SVP Special Assets and Loan Servicing, Celtic Bank

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While working with FRANdata, we found a team similarly dedicated to the goal of helping clients maximize opportunities through data. We evaluated the FUND score with its supporting attributes and discovered that by combining FRANdata's brand-level risk information with Experian's Financial Stability Rating, clients can get a more complete picture of severe delinquency or business failure risk for individual franchisees. This should be particularly useful to clients with portfolios that are rich with franchise customers.

- **Piew Datta**, Director of Commercial Data Science at Experian

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Our partnership with FRANdata has been instrumental in helping Capital One's Spark Business support franchises' lending needs in a simple and seamless way. As access to capital continues to be top of mind for businesses across the country, we've been able to leverage FRANdata's leadership and years of expertise to serve the unique and complicated needs of a franchise. As a result, we have been able to provide superior servicing and lending options for our franchise customers and offer tangible advice and resources to help them obtain access to capital when they need it most.

- **Brian K. Smith**, Head of SBA Lending at Capital One

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As a lender, it's a huge relief to find a Bank Credit Report on the Franchise Registry for a brand we are considering working with, as it shows us the franchisor is very serious about supporting their franchisees when it comes to financing. The BCR helps us determine if a franchise meets our criteria and is a brand we want to do business with.

- **Mike Smith**, SVP of Franchise Lending Group at Atlantic Capital Bank

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During our most recent FDIC examination, the examiners noted that we had built up a concentration in preschool franchises within our SBA portfolio. When a concentration exists within the portfolio, the regulators want to ensure that the Bank is taking extra steps to not only identify and report the concentration, but to inform itself and the Board on the risks associated with the industry in general and the franchises in particular. We have made loans to Goddard, Kiddie Academy and The Learning Experience that make up the bulk of that concentration. The FDIC examiners were impressed that we had purchased the Fund Reports for those franchises. Further, the examination report stated that the Fund Reports were evidence that the Bank was properly monitoring the risks within that portfolio concentration

- **Wesley Gash**, SVP, Director of SBA Lending

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