
Financing Your Franchise

NPI franchisees have used all of the following types of loans to help fund the franchise purchase/start-up of their business. This is an overview of various types of funding options. Contact any of the providers listed in Section II to discuss what might work best for you.

Section I: Financing Methods

A. Secured or unsecured loans

Home Equity Loans—Also known as a line of credit you can draw on from a bank based on the amount of equity in your home. The house is collateral for the loan. Some loans have you pay interest only monthly with principal payments at your own pace or timing. Interest may be tax deductible. Might be the easiest to qualify and afford among all loan options.

Secured Credit—A loan against something of value such as real estate, investment securities, etc.

Unsecured credit—no collateral. Installment or credit card type.

B. Rolling Over Retirement Funds

Many investors are eager to roll their 401(k) over into an IRA and use the money to start a business. It's called a Rollover as Business Start Up Plan or ROBS. And it's "one potential way for an entrepreneur to fund a new business is with his or her retirement plan assets," according to the LISI Employee Benefits & Retirement Planning Newsletter #668.

According to the authors of that newsletter, Brandon Ketron, an associate at Gassman, Crotty & Denicolo, and Alan Gassman, a partner at that firm, a typical ROBS plan involves forming a new C-Corporation and adopting a simple 401(k) plan.

"The entrepreneur can then roll over his or her IRA account into the new 401(k) plan," they wrote. "The 401(k) plan then purchases stock in the new corporation. This results in the funding of a new corporation with the entrepreneur's former IRA account."

C. SBA Bank loans

Microloan Program

What is a Microloan?

The Microloan Program provides small, short-term loans to small business concerns and certain types of not-for-profit child-care centers. The SBA makes funds available to specially designated intermediary lenders, which are nonprofit community-based organizations with experience in lending as well as management and technical assistance. These intermediaries make loans to eligible borrowers. The maximum loan amount is \$50,000, but the average microloan is about \$13,000.

How Microloan Funds May Be Used

Microloans may be used for the following purposes:

- Working capital
- The purchase of inventory or supplies
- The purchase of furniture or fixtures
- The purchase of machinery or equipment.

Proceeds from a microloan cannot be used to pay existing debts or to purchase real estate.

Technical Assistance

Each intermediary (lender) is required to provide business training and technical assistance to its micro-borrowers. If you apply for microloan financing, you may be required to fulfill training and/or planning requirements before your loan application is considered. This business training can be helpful to you as you launch or expand your small business.

Terms, Interest Rates, and Fees

Loan terms vary according to:

- The size of the loan
- The planned use of funds
- The requirements of the intermediary lender
- The needs of the small business borrower

The maximum term allowed for a microloan is six years. Interest rates vary, depending on the intermediary lender and costs to the intermediary from the U.S. Treasury. Generally, these rates will be between 8 and 13 percent.

Collateral

Each intermediary lender has its own lending and credit requirements. Generally, intermediaries require some type of collateral as well as the personal guarantee of the business owner.

Contact Your Local Microloan Intermediary

Small businesses interested in applying for a microloan should contact an intermediary in their area, since all credit decisions are made on the local level. The Microloan Program is available in selected locations in most states.

The following is a newspaper article about how a new NPI franchise owner obtained an SBA Microloan to fund his NPI franchise purchase/startup.

http://iowamicroloan.org/success/gazette_article.jpg

There are other SBA loan options. A good source of information on SBA loans is First Financial (listed in Section II below).

Section II: Franchise Financing Sources

Tenet Financial Group

Tenet offers a variety of funding/loan options.

Learn more here: <http://tenetfinancialgroup.com/step-1>

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Diamond Financial

Franchise Funding specialists nationwide currently working with over 250 Franchise Brands.

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- Diamond Retirement Funding™ (Leverage Retirement Assets) - \$40K - \$500K+
- Unsecured Business Lines of Credit (UBLOC™) - \$20K – \$150K
- SBA Express and 7(A) Loans - \$50K – 5 million
- Franchise Revenue Loan - \$25k – \$300K

Diamond Financial (in business since 1996), specializes in combining multiple types of funding (from \$5K - \$10 million) to get a business every dollar it needs.

You can see all the various lending options from Diamond Financial [HERE](#),

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First Financial

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Guidant Financial

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