

FRANCHISE FUNDING BASICS

Understanding the most common ways people finance business ownership

One of the first questions prospective franchise owners ask is: “How do people pay for this?” The answer is rarely one-size-fits-all. Franchise buyers may use personal capital, financing, retirement funds, or a combination of strategies depending on the opportunity, their financial position, and their long-term goals.

Understanding the basic options can help you have a more productive conversation about what is realistic before you begin evaluating specific franchise brands.

Cash or Personal Capital

Some buyers fund all or part of an investment with savings or other liquid assets. Using personal capital can simplify a transaction and reduce borrowing costs, but it also means deciding how much liquidity you are comfortable committing to the business. A thoughtful funding plan should consider not only the initial investment, but also working capital and the cash reserves you want to maintain outside the business.

SBA Loans

Loans backed by the U.S. Small Business Administration are commonly used to finance eligible small-business and franchise investments. The SBA does not typically lend money directly to the business owner; participating lenders make the loan, subject to their underwriting and SBA program requirements. A lender will evaluate factors such as the borrower’s credit profile, available equity injection, experience, collateral when applicable, and the economics of the proposed business.

Conventional Business Loans

Banks and other lenders may also offer conventional business financing that is not SBA-backed. Qualification standards, down-payment expectations, collateral requirements, rates, and terms vary by lender and borrower. For some well-qualified buyers or transactions, conventional financing can be worth comparing with SBA options.

Retirement Funds / ROBS

A Rollover for Business Startups, commonly called a ROBS, can allow an eligible individual to use certain retirement funds to capitalize a new business without treating the transaction as a traditional early retirement-account withdrawal. This is a specialized structure with important legal, tax, retirement-plan, and compliance requirements, so it should be established and maintained with experienced professional guidance.

Home Equity and Other Personal Financing

Depending on an individual’s circumstances, home equity or other personal borrowing may be part of a funding strategy. These approaches can put personal assets at risk, so the cost, repayment obligations, and consequences should be evaluated carefully before using them to finance a business.

Portfolio and Securities-Backed Lending

Some investors may have access to lending strategies secured by eligible investment assets. Availability, borrowing limits, market-related risks, and restrictions vary considerably. These strategies should be reviewed with the appropriate financial and lending professionals before being incorporated into a business funding plan.

Combining Funding Sources

Many franchise purchases are funded with more than one source. A buyer might combine personal capital with an SBA loan, for example, or use another qualified strategy to meet an equity requirement while preserving

appropriate working capital. The right structure depends on both the individual and the business being considered.

Start With the Business — and Your Financial Boundaries

Funding should not be viewed simply as a way to stretch into the largest investment you can qualify for. The better question is whether the business, investment level, debt obligations, working-capital needs, and owner economics make sense together.

Before choosing a funding strategy, it helps to understand two different numbers: how much capital you have available and how much you are actually comfortable investing. Financing may expand the range of opportunities you can consider, but it should not replace thoughtful due diligence.

Wondering how people fund a franchise?

There are more options than many prospective owners realize. I work with trusted franchise funding partners who can help candidates understand the strategies available based on their individual circumstances.

Request my Franchise Funding Guide and I'll send you a copy.

Educational note: This overview is for general educational purposes only and is not legal, tax, accounting, investment, or lending advice. Financing availability and requirements vary by individual, lender, program, and transaction. Consult qualified professionals regarding your specific circumstances.