

How to Qualify for Franchise Loans Even with Bad Credit

By AllBusiness.com



Having bad credit makes it harder to qualify for a franchise loan, but it's not impossible. If you have bankruptcies combined with lots of judgments and tax liens against you, then the chances of getting a loan from a financial institution is very small. On the other hand, if you've experienced a few financial setbacks in the past that left your credit less than stellar, don't give up hope -- you can still possibly qualify for a franchise loan. Let's examine your options.

First of all, it's difficult to qualify for a bank loan for a new franchise business even with perfect credit. Banks and other lenders tend to evaluate prospective borrowers in terms of these questions:

- How much cash does the borrower have to invest in the business?
- How much collateral does the borrower have to secure the loan?
- What is the borrower's credit history?
- What is the borrower's managerial and work experience, especially as it relates to their prospective franchise business?

With bad credit, your best chance of qualifying for a franchise loan is to go through one of the loan programs offered by the Small Business Administration. Because the government guarantees a percentage of SBA loans, it lessens the lenders' chance for a loss. Lenders prefer this arrangement, particularly in the case of a borrower with bad credit or no credit.

Before you can get a SBA loan, you must first be turned down for a bank loan. Once the bank turns you down, it or another lender can submit your loan application to the SBA for consideration. In the qualification process, the SBA looks at the franchise business and the prospective franchisee using the following criteria:

- **Franchise Business.** The business must be "small" (less than \$13.5 million in retail- or service-related sales), be located in the United States or a U.S. governed territory, and be for profit. The SBA looks at the financial strength and marketing of the franchise. You must have a [business plan](#). Your franchise business cannot in any way discriminate, such as a place that caters exclusively to either men or women.
- **Prospective Franchisee.** The SBA requires you to have a certain amount of your own cash that you intend to invest in the business, and it prefers you to have enough collateral to cover all or part of the loan. The SBA looks at your credit history and your experience as a manager. The agency is apprehensive if you are just out of school or have no work experience, so the more business experience you have, the better.

With bad credit, your best option for getting a franchise loan is through the SBA's MicroLoan Program. Average loan amounts are around \$10,000 but can be as high as \$35,000. Currently, the program is administered by 170 nonprofit, community-based organizations nationwide. The maximum length of loans is six years. The interest rate is set by the Treasury Department, meaning that it can occasionally vary, but overall is a higher rate than you would get on standard business loans.

Another possible avenue you might try for getting a loan with bad credit is through a "Community Development Corporation." These are nonprofit organizations whose intention is to improve local communities. One of the ways they do this is by lending money to local small businesses, particularly if they bring revenue and jobs to the area.

If all else fails, you are left with the options of leveraging all of your assets, taking on partners, looking for investors, finding a cosigner, or trying for a grant. Beyond that, you can get a job that will give you solid managerial experience (particularly within your prospective franchise or a similar company), pay off all of your debts, and try again in about two years.