

QUANTIFYING FRANCHISE CREDIT RISK: THE CORRELATION BETWEEN FRANDATA FUND SCORES AND SBA LOAN PERFORMANCE

Synopsis

- Analysis of 18,000+ SBA 7(a) franchise loans to evaluate the relationship between FUND Scores and loan performance.
- Findings show that higher FUND Scores align with lower charge-off rates and more favorable interest terms.
- Banks using FUND Scores in underwriting experienced an average 20% reduction in charge-offs.
- Minimal Risk brands (FUND Score above 800) showed charge-off rates below 2%, compared to 15% for high-risk brands.
- Franchisees in lower-risk systems saved roughly \$160,000 in interest payments over a 10-year loan term.
- Results confirm that FUND Scores give lenders a quantifiable, data-driven advantage in evaluating franchise credit risk and strengthening portfolio performance.

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FRANdata conducted an analysis of more than 18,000 SBA 7(a) loans made to franchisees from 2010 to the present to understand the relationship between our FUND score and SBA loan outcomes.

The results show that FUND scores are strongly correlated with better loan performance, including lower charge-off risk and more favorable interest rates. Banks that incorporate FUND scores into their underwriting process experience a meaningful improvement in portfolio performance. **On average, banks that integrated the FUND Score into their franchise underwriting process experienced a nearly 20% reduction in charge-off rates.**

This research demonstrates the value of FRANdata's FUND scores in supporting more informed lending decisions and improving outcomes for both banks and franchisees.

Data Analysis/Methodology

FRANdata's FUND scores are available to nearly 1,000 franchise brands, providing an objective measure of their risk and creditworthiness. To understand the practical impact of these scores, we matched them with publicly available SBA 7(a) loan data from 2010 to the present. This produced a dataset of over 18,000 loans, representing more than \$8 billion in total lending, with an average loan size of nearly \$500,000.

To provide a clearer framework for analysis, brands were organized into five risk categories, ranging from High Risk to Minimal Risk. High Risk includes brands with FUND scores of 400 or below, Moderate Risk ranges from 401 to 525, Average Risk covers 526 to 675, Low Risk includes 676 to 800, and Minimal Risk applies to scores above 800.

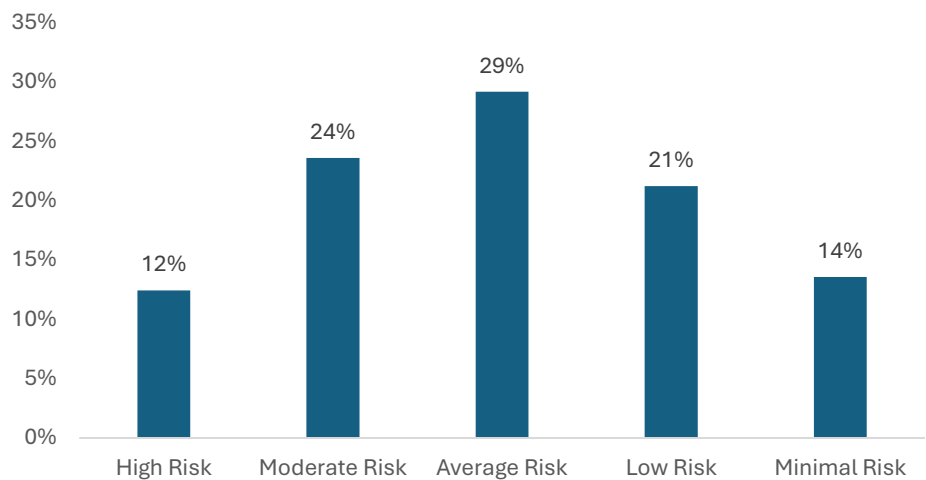
A detailed statistical analysis of this dataset demonstrates that higher FUND Scores are associated with lower charge-off rates. Across the full dataset, there's an inverse relationship of -0.14 between FUND Scores and charge-offs—meaning as FUND Scores go up, charge-off rates tend to go down. When brands are grouped into defined risk categories, the relationship becomes more pronounced, highlighting how FUND Scores effectively differentiate franchise brands by their risk levels.

Impact on Bank Charge-Offs

A closer analysis of FUND scores and charge-off rates shows a clear relationship between brand risk and loan performance.

Loans classified as High Risk, with FUND scores below 400, have an approximate 15%¹ likelihood of going into charge-off, meaning roughly 1 in 7 franchise loans in this category are predicted to default. **As FUND scores increase and brands move into lower risk categories, the likelihood of default decreases significantly.** For example, while a High Risk brand faces a 15% chance of default, a Minimal Risk brand—with a FUND score above 800—has less than a 2% probability of bank charge-off.

Distribution of FUND Scores



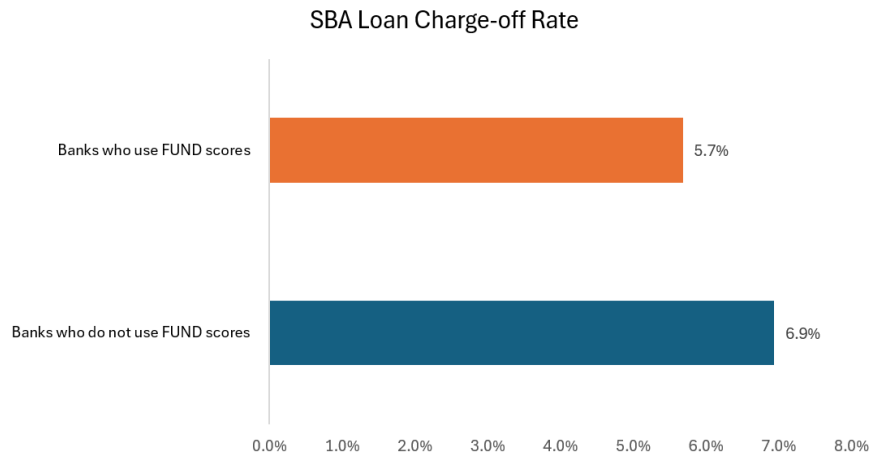
Risk Group	Coefficient	Approx. Charge-off Rate Difference	Charge-off Rate	P-value ²
High Risk	Base	Base	15.0%	Base
Moderate Risk	-0.198	↓ 18% lower	12.3%	0.009
Average Risk	-1.056	↓ 65% lower	5.3%	< 0.001
Low Risk	-1.008	↓ 63% lower	5.6%	< 0.001
Minimal Risk	-2.135	↓ 88% lower	1.8%	< 0.001

Takeaway: Compared to the High Risk group, the Minimal Risk group sees charge-off rates fall below 2%. This pattern demonstrates how FUND scores effectively differentiate franchise brands by risk, providing valuable insight for lenders in assessing potential loan performance.

¹ This 15% charge-off rate is based on the historical performance of SBA 7(a) loan analysis.
² The p-score highlights that these relationships are considered statistically significant and not likely due to other issues in the data.

FUND Score Impact on Bank Loan Performance

Lending inherently involves risk, but FUND scores help banks make more informed decisions by identifying high- and low-risk borrowers. FRANdata's client banks that incorporate FUND scores into their underwriting see a notable decrease in their average charge-off rate of approximately 1.26%.



Prior to using FRANdata's FUND score data in their underwriting process banks who use the FUND score had, on average, a charge-off rate of 6.94%³. After integrating FUND scores into their lending decisions, their average charge-off rate fell to 5.68%, representing a statistically significant improvement.

Impact on Interest Rates

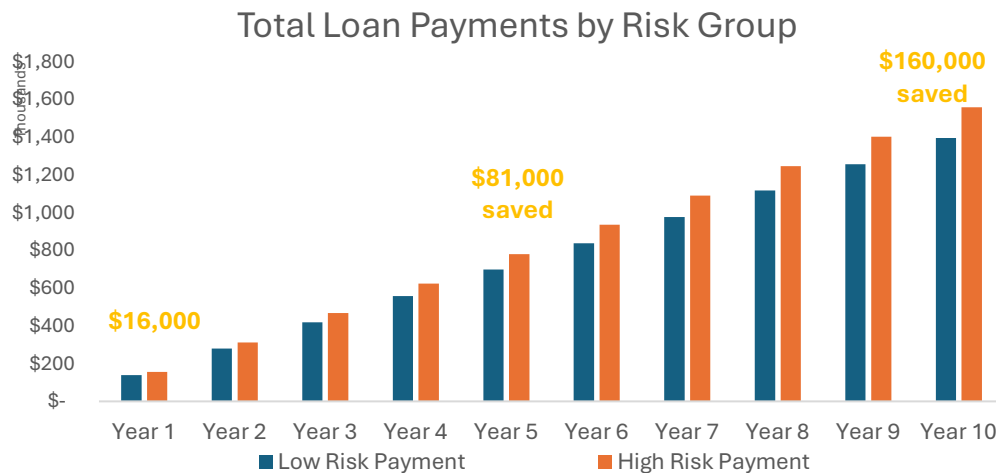
Similar to default risk, higher FUND scores are generally associated with lower interest rates. Grouping brands by FUND score reveals a statistically significant impact on interest rates.

Risk Group	Coefficient	Approx. Interest Rate Difference	Example Rate*	P-value
High Risk	Base	Base	9.0%	Base
Moderate Risk	-0.0496	~0.05% lower	8.5%	0.026
Average Risk	-0.1204	~0.12% lower	7.9%	< 0.001
Low Risk	-0.1416	~0.14% lower	7.7%	< 0.001
Minimal Risk	-0.2748	~0.27% lower	6.6%	< 0.001

*This rate was selected to highlight the impact, but was not selected to be reflective of actual data.

³ This analysis was performed after the removal of an outlier bank's loan performance.

Currently, SBA 7(a) loan rates offered by banks range from 8.5% to 10.25%, with some reaching as high as 12%⁴. To illustrate this impact, we assigned a rate of 9% to the High Risk loan group. Holding all other factors constant, our analysis indicates that a loan in the Minimal Risk group would carry an interest rate of approximately 6.6%. For comparison, on a \$1,000,000 loan with a 10-year term, a franchisee in the Minimal Risk group would pay roughly \$16,000 less per year than a borrower in the High Risk group, resulting in total savings of approximately \$162,000 over the life of the loan.



Conclusion

The findings in this analysis demonstrate that FRANdata's FUND Score provides lenders with a quantifiable and predictive measure of franchise loan performance. Across more than 18,000 SBA 7(a) loans, higher FUND Scores consistently corresponded with lower charge-off rates and more favorable interest rate outcomes.

For lenders, this correlation offers a meaningful framework for credit decisioning:

- Risk segmentation – FUND Scores clearly differentiate franchise systems by performance metrics, allowing lenders to calibrate underwriting standards and portfolio exposure by risk tier.
- Portfolio performance insights – Banks that integrated FUND Scores into their franchise underwriting processes experienced a measurable decline in charge-offs—approximately 20% lower on average—highlighting the model's practical predictive power.

⁴ Based on a scan of the current rates as of 6/16/2025 and are subject to change.

- Pricing precision – Statistically significant variations in interest rates across FUND Score groups support its use as an input for loan pricing and risk-based rate modeling.

Incorporating FUND Scores enables lenders to make better-informed, data-backed credit decisions, improve risk-adjusted returns, and allocate capital more efficiently within their SBA and conventional franchise portfolios. By grounding underwriting in an empirically validated credit model, lenders can achieve greater consistency, transparency, and predictability across franchise lending activity.

FRANdata Lender Solutions

FRANdata provides the franchise intelligence lenders rely on to assess risk, strengthen underwriting, and improve portfolio performance.

Through tools like the **FUND Score**, lenders gain data-driven visibility into franchise creditworthiness and SBA eligibility—helping reduce uncertainty and accelerate loan decisions.

FRANdata's portfolio analytics and custom datasets give institutions a deeper understanding of exposure across brands and industries, supporting stronger risk management and growth strategies.

Learn more about how FRANdata supports the lending community at frandata.com/lending-institutions.

Appendix – Correlation between Historical Unit Success Rate and SBA Loan Performance

A complementary analysis was conducted on Historical Unit Success Rate (HSR) to examine its relationship with SBA loan performance, using the same datasets and methodology applied in the FUND score analysis. HSR functions as an underlying metric within the FUND score, so its relationship to loan performance can only be assessed in isolation.

The analysis shows that HSR exhibits a slightly weaker negative correlation with charge-off rates compared to FUND scores and offers minimal predictive value for interest rates.

Metric	Value
Coefficient	-0.7353
p-value	<0.001

To enhance its practical application, HSR values were grouped into three categories: high risk for scores below 100, moderate risk for scores between 100 and 119, and low risk for scores of 120 or greater. Based on these groupings, observed charge-off rates were 10.72% for the high risk group, 5.15% for the moderate risk group, and 2.47% for the low risk group.

These results indicate that while HSR has a smaller statistical impact and is a less direct predictor of loan performance than FUND scores, it still provides meaningful context. Higher HSR values are generally associated with lower risk and a reduced likelihood of loan default, making HSR a useful complement in the broader assessment of franchise credit risk.