



FRANCHISE
REGISTRY

CREDITWORTHINESS AS STRATEGY: THE FUND SCORE ADVANTAGE FOR FRANCHISE GROWTH

Access to capital is one of the biggest drivers of franchise growth. This study of more than 18,000 SBA 7(a) loans demonstrates how FRANdata's FUND Score directly impacts franchisee financing outcomes:

- Lower Interest Rates: Franchisees with higher FUND Scores secure significantly better loan terms, saving up to \$160,000 over the life of a loan.
- Reduced Default Risk: Strong FUND Scores are tied to lower charge-off rates, strengthening the system's overall credit profile.
- Improved Lender Confidence: Higher scores increase the likelihood that banks will finance new and existing franchisees.

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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. **The impact of a higher FUND score has the potential to save franchisees approximately up to \$162,000 over the life of the loan¹.**

In addition, banks that incorporate FUND scores into their underwriting process experience a meaningful improvement in portfolio performance. On average, member banks saw their charge-off rates decline from 6.94% before using FUND scores to 5.68% after adoption—a nearly 20% improvement.

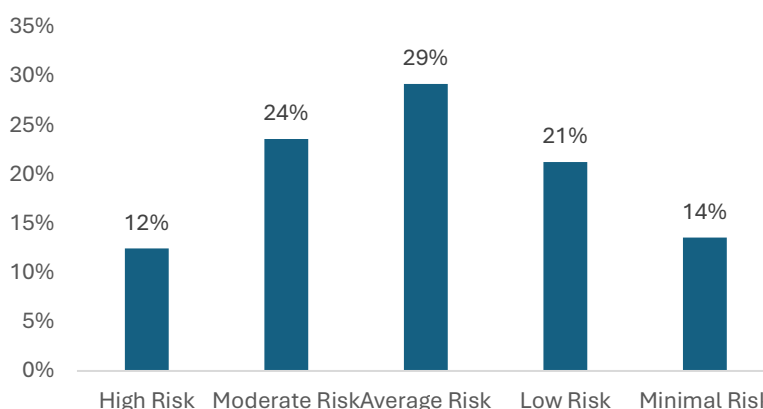
This research demonstrates the value of FRANdata's FUND scores in supporting more informed lending decisions and improving outcomes for both banks and franchisees.

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.

Our review of the data shows a clear pattern: brands with higher FUND Scores tend to experience

Distribution of FUND Scores



fewer loan charge-offs. While the overall relationship across all brands is modest, the connection

¹ This estimate is based on a \$1,000,000 loan with a 10-year term and current market interest rates. An estimated interest rate charged to high risk FUND score brands and minimal risk FUND score brands determines the maximum.

becomes much stronger when we look at groups of brands by their defined risk categories. In these groupings, FUND Scores do a strong job of separating lower-risk from higher-risk brands, underscoring their value as a tool for understanding and comparing franchise risk.

Impact on Interest Rates

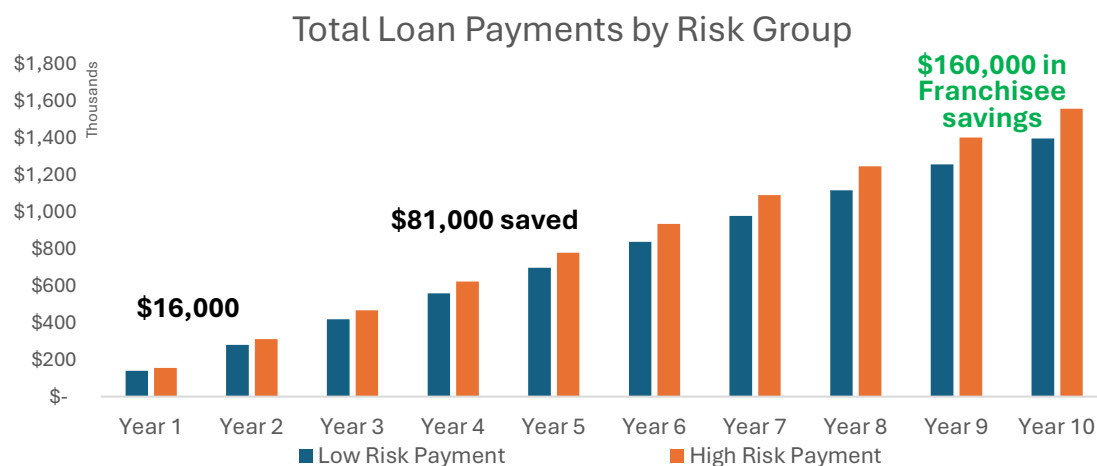
Similar to default risk, FUND scores also influence loan interest rates. When brands are grouped by FUND score, the impact is clear and statistically significant.

SBA 7(a) loans currently range from 8.5% to 10.25%, with some as high as 12%. Using a 9% rate as a benchmark for High Risk, a borrower in the Minimal Risk group would pay closer to 6.6%. On a \$1,000,000 loan with a 10-year term, that difference translates into about \$16,000 in annual savings—or roughly \$162,000 over the life of the loan.

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

**Example rate assigned for illustration only*

Takeaway: Over the 10-year term of a loan, a franchisee working with a Minimal Risk brand could save approximately \$160,000 as compared to a borrower working with a High Risk brand.



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%² 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.

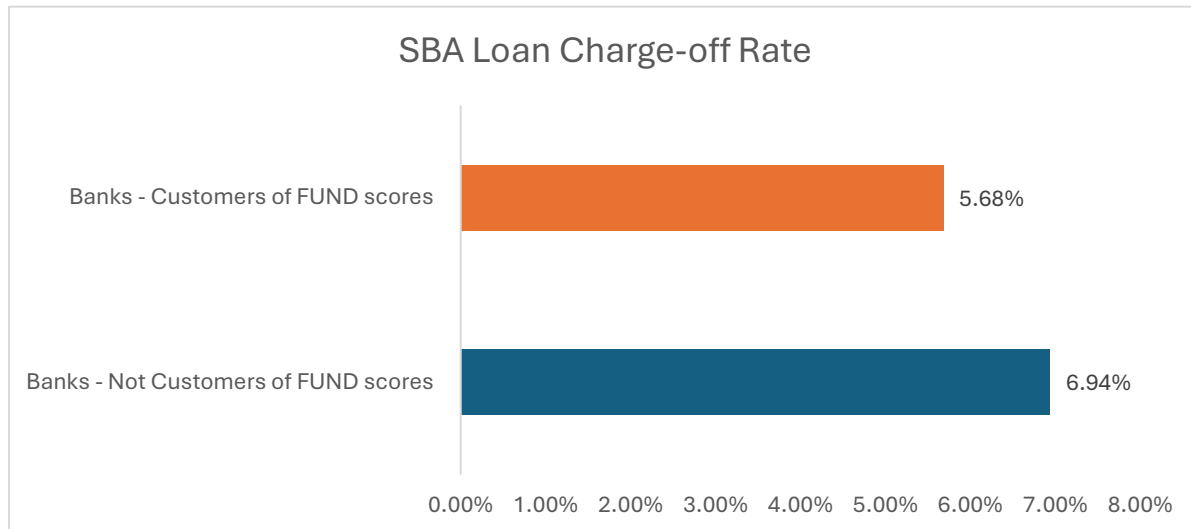
Risk Group	Coefficient	Approx. Charge-off Rate Difference	Charge-off Rate	P-value ³
High Risk	Base	Base	15.0%	Base
Moderate Risk	-0.198	↓ 18% lower	12.3%	0.009
Average Risk	-1.056	↓ 65% lower	5.3%	< 0.001
Low Risk	-1.008	↓ 63% lower	5.6%	< 0.001
Minimal Risk	-2.135	↓ 88% lower	1.8%	< 0.001

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.

² This 15% charge-off rate is based on the historical performance of SBA 7(a) loan analysis.

³ 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 FUND score data, the client banks had, on average, a charge-off rate of 6.94%⁴. After integrating FUND scores into their lending decisions, their average charge-off rate fell to 5.68%, representing a statistically significant improvement.

Conclusion

FRANdata's FUND score is a reliable and robust indicator of franchise loan performance. Key benefits include:

- Clear differentiation of borrowers' default risk
- Predictive insight into interest rates
- A consistent method to benchmark credit risk across franchise systems
- Statistically significant improvement in charge-off rates for banks that integrate FUND scores into their underwriting process

For franchise brands, leveraging higher FUND scores offers an opportunity to identify and enhance the variables that drive stronger credit performance, ultimately benefiting their

⁴ This analysis was performed after the removal of an outlier bank's loan performance.

franchisees through improved access to financing. For lenders, incorporating FUND scores into their underwriting and pricing strategies enables more precise risk assessment, better-informed credit decisions, and a more efficient allocation of capital across loan portfolios.

By aligning both franchisors and lenders around a data-driven framework, FUND scores help foster a healthier, more predictable lending environment within the franchise sector.

FRANdata Solutions for Franchisors

The insights from this analysis illustrate how measurable credit performance can be influenced—and improved—through informed system management. FRANdata provides franchisors with the data and advisory support needed to strengthen lender confidence and improve franchisee access to capital.

FRANdata helps brands:

- Benchmark their system's credit risk profile against peers and industry norms.
- Streamline SBA eligibility and certification processes.
- Develop data-driven strategies to enhance franchise growth and financing outcomes.

By connecting the right information to the right stakeholders—franchisors, lenders, and investors—FRANdata enables brands to turn creditworthiness into a strategic advantage.

For more information visit <http://www.frandata.com>

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.