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Why Loan to Our Industry?

By Dennis Monroe

Fortunately for all of us, there tends to always be a supply of new lenders and finance sources exploring and/or entering the restaurant, and particularly the restaurant franchise, finance sector. When the Monitor started 35 years ago, there were only a small number of lenders and finance resources. But now in addition to the longtime banks and finance companies, there is an ever-growing group of banks that have gotten into the franchise lending space. I interviewed some key new players, but I'll also give my thoughts on why this industry seems so desirable for lenders.

1. The demand is there: There certainly has never been a shortage of demand for funding in the restaurant industry; and on the flipside, there is always a shortage of lenders to provide this funding.

2. It's a cash flow business: And it's pretty easy to define cash flow, particularly in the restaurant franchise world. This predictable cash flow is key in the loan underwriting process.

3. Franchisor assistance: Franchisors don't like franchisee defaults or closures, so they usually are willing to actively assist with bank or credit issues to maintain value in the borrower/franchisee business.

4. Other programs: There is the availability of additional lending programs, such as those offered by the Small Business Administration (SBA) which gives banks the overarching safety net.

5. Short amortization: Because most restaurant loans have shorter amortization periods, the risk decreases.

6. Low sensitivity to interest rates: Finally, most restaurant owners are not rate sensitive. They are more concerned about the supply of funding and typically don't demand lower rates. The exception may be the large operators.

Here's what lenders I talked to have to say:

Luke Rhyner, director of franchise finance at Heartland Bank (HTLF), has recently gotten involved in this space. HTLF is a national player with a number of different banks operating under different names. This is a progressive group pioneering some new thought processes. They have structured a vertical lending approach (industry-specific) and one of the vertical's franchise finance groups focuses primarily in the restaurant space. Rhyner heads up this group, along with veteran players, and they've already had some significant traction, particularly participating in larger loans and leading syndicates in major restaurant franchise areas. Rhyner said they saw this as an opportunity to provide their banks with enough supply and demand to make it a powerful lending vertical. HTLF looks at not just the loan volume, but also the broader banking relationships.

While Rhyner agreed there was less rate sensitivity in restaurant franchise lending, his key incentive is developing relationships to do full-service bank services for the franchise industry.

The second person I talked to was Craig Caldwell, executive vice president and director of specialty finance at Encore Bank. Encore was started as a small community bank with a business proposition to fund new markets with local investors from 100 to 150 people. That in effect provides the capital for expansion, and serves as both a customer base and referral source to grow the marketplace. This strategy has allowed them to grow to $3.8 billion with continued growth.

Encore considers itself a concierge bank, which means they strive to take exceptional care of their customers. One of their major specialty lending areas, headed by Caldwell, along with his veteran team, is the franchise industry. To date, their lending activities have been with the key large concepts, but they have also done a good job in the lower to middle markets for restaurant franchise systems.

The reason they're involved in this space, he said, is to meet a significant need of their customers in specific markets. They also have a strong SBA presence which has led them to fulfill some other needs in this space.

"The one thing about franchise lending is that it is so relationship driven," Caldwell said. He understands what's important in the development of a franchise-lending program (including the six points above), and they are key to their culture. He stressed they are committed to this sector and will continue to develop relationships that will tie the investor approach to their bank and future expansion.

These two examples, as well as others profiled in the Monitor every month, point to the lender groups coming into the space hiring industry experts. Even with these well-known professionals, each bank/lender has some unique approaches to our industry—and as the way we do business continues to evolve creative approaches are always welcome.

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