Inc.

Major Delays in SBA-Backed Loans Are Slowing the Recovery

By Diana Ransom | February 8, 2021

The Coivd-19 pandemic hasn't been unkind to Stephen Schober's 35-year-old metal-supplies business. Several employees at Metal Supermarkets, which has 98 franchise locations in the United States, Canada, and the United Kingdom, did become ill but recovered; and the business itself was deemed essential, so it never had to close its doors.

"We're expanding," says Schober, whose Mississauga, Ontario-based company has more than 500 employees across the system, and booked $117 million in global 2020 revenue, up from $110 million in 2019. "We're quite attractive now as a franchise opportunity because we are an essential business that's been growing sales, and we're profitable."

But Schober has a problem: Six of his newest American franchisees are having difficulty getting financing. Lenders, he says, are now requiring more rigorous due diligence for loans backed by the U.S. Small Business Administration--even though Metal Supermarkets' business model has been deemed eligible under the SBA affiliate rules and is listed on the agency's Franchise Directory.

Among other things, he says, lenders are now asking more questions, and some want higher down payments, more liquidity, and more outside income. They also require new businesses to hold off building out a location--even if the owner is using her own money--until all of the SBA documents are signed and sealed. "We now have franchisees who've signed the lease who are either paying the rent or are burning through the free rent period, and all they can do is sit there for an extra 30 to 60 days while the bank does the documentation," says Schober, who adds that the documentation itself is taking longer, too. "This is different banks, in different states," he says. "It's really getting to be a challenge.... My concern is that we're slowing up business creation that's going to be very important to a recovery."