SBA Franchise Directory Returns June 1, 2025: What Franchisors Need to Know

In brief

On June 1, 2025[1], the U.S. Small Business Administration (SBA) will reinstate its Franchise Directory, reversing a policy change from 2023[2]. The decision comes in response to widespread concerns from lenders, franchisors, and industry groups that the elimination of the directory created uncertainty and barriers to SBA-backed lending for franchisees.

The reinstatement, along with new guidance in the SBA's revised SOP 50 10[3], restores a more predictable process for franchise-related SBA loans. Franchisors looking to maximize growth through franchisee financing opportunities should act now to ensure compliance and take full advantage of the changes.

Background: The Rise, Fall, and Return of the Franchise Directory

The SBA Franchise Directory was created to simplify the loan approval process for franchisees by providing lenders with a pre-vetted list of franchise brands deemed to meet SBA affiliation and eligibility requirements.

Previously, without the directory, lenders and applicants had to navigate complex reviews of franchise agreements and operations to determine whether a franchisor and franchisee were considered "affiliated"—a determination that could affect SBA loan eligibility. In 2023, the SBA eliminated the directory as part of broader reforms to modernize and streamline the SBA loan program. Instead of relying on a centralized list, the SBA shifted the burden to lenders to assess affiliation independently, using updated but flexible standards. However, the elimination of the directory had unintended consequences—lenders became cautious, loan processing times lengthened, and many lenders hesitated to approve franchisee loans without significant legal review. Franchisees, in turn, faced delays, higher costs, and lost opportunities—ultimately impacting franchise system growth.

Recognizing these challenges, the SBA has reversed course, and the Franchise Directory will again be a central tool for SBA lending starting June 1, 2025.

Key Changes in the Reinstated Franchise Directory and SOP 50 10

The reinstated SBA Franchise Directory and the corresponding updates to SOP 50 10 create a more structured, but also stricter, framework for franchise lending eligibility[4]. Franchisors should be aware of several important developments:

1. **Mandatory Listing for Brands Meeting the FTC Franchise Definition**. Brands that meet the Federal Trade Commission (FTC) definition of a "franchise"[5] must appear in the SBA Franchise Directory for franchisees to qualify for SBA financing. The SBA will apply the FTC definition broadly, covering traditional franchise models and certain licensing, dealer, and distributor arrangements.

2. **Centralized SBA Review and Listing Process**. Franchisors seeking to be listed must submit their Franchise Disclosure Document (FDD), franchise agreement, and all required ancillary documents to the SBA. The SBA will conduct a centralized review and may request additional materials such as operations manuals. Brands found eligible will receive a Franchise Identifier Code and will be listed in the directory, though listing does not imply endorsement of business success.

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[1] *See* SOP 50 10, Lender and Development Company Loan Programs, https://www.sba.gov/document/sop-50-10-lender-development-company-loan-programs (The text of SOP 50 10 is available at https://www.sba.gov/sites/default/files/2025-04/SOP%2050%2010%208%20effective%206.1.2025%20Final.docx).

[2] *See* Support: SBA Franchise Directory, https://www.sba.gov/document/support-sba-franchise-directory.

[3] *See* SOP 50 10: Lender and Development company Loan Programs, https://www.sba.gov/document/sop-50-10-lender-development-company-loan-programs.

[4] *See* supra note 1.

[5] *See* 16 C.F.R. § 436 (2025).

3. **Multi-Brand Franchisees Must Clear Eligibility for Each Brand**. If a franchisee applicant operates under multiple brands, each brand must be independently listed in the directory.

4. **Management Agreements and Operational Control Requirements**. Separate management agreements not disclosed in the FDD must still be reviewed by lenders to confirm that the franchisee retains "meaningful oversight" over business operations. Applicants must control budgeting, major expenditures, employee oversight, and bank accounts to qualify. Arrangements that render the franchisee a passive investor will disqualify the applicant from SBA financing.

5. **Treatment of Area Development and Master Franchise Agreements**. Franchisees operating under area development or multi-unit development agreements—where they open and operate their own units—are eligible for SBA financing, provided other conditions are met. In contrast, master franchisees who primarily earn royalties from sub-franchisees are considered passive and are not eligible.

6. **Ongoing Monitoring and Risk of Removal**. Inclusion in the Franchise Directory is not permanent. Brands may be removed if they violate SBA program rules, engage in illegal activities, or fail to comply with their Franchisor Certification obligations.

These changes aim to simplify and accelerate SBA lending for compliant franchise brands, while tightening standards to ensure that franchisees remain true small business operators, not passive investors.

<u>What the Reinstatement Means for Franchisors and Practical Next Steps</u>

Access to SBA-backed financing often influences a prospective franchisee's decision when comparing franchise opportunities. Brands not listed in the Franchise Directory may face a competitive disadvantage, particularly when financing options are an important factor for candidates.

Additionally, lenders are expected to rely heavily on the directory to simplify their underwriting process. Brands not listed may find lenders unwilling or unable to support their franchisees' applications, regardless of business fundamentals.

For brands listed in the Franchise Directory as of May 2023, the SBA is implementing a transitional process: (i) the franchisor must execute a new SBA Franchisor Certification by July 31, 2025; (ii) until the certification is executed, lenders must use the SBA-approved addendum noted in the directory, and both the franchisor and franchisee must sign the addendum prior to loan disbursement; and (iii) if the certification is not executed by July 31, 2025, the brand will be removed from the directory, making franchisees ineligible for SBA-backed loans under that brand. **Franchisors with existing directory listings should prioritize reviewing the new certification requirements to maintain continuous eligibility.**

Franchisors should immediately take the following steps to prepare:

1. **Review Franchise Documents for SBA Compliance**: Analyze FDDs and franchise agreements for terms that could suggest affiliation concerns—operational control, vendor mandates, pricing controls, and transfer restrictions.

2. **Coordinate with Counsel on Submission**: Work with franchise counsel to ensure that the submission package meets SBA review requirements, and develop a strategy to address any concerns the SBA may raise during review.

3. **Develop Internal Training and Communications**. Ensure that franchise development and sales teams are trained on the brand's SBA eligibility status and able to communicate the advantages of SBA-backed financing to prospective franchisees.

4. **Monitor Directory Updates**: Regularly monitor the Franchise Directory to confirm ongoing eligibility and update SBA filings as needed if material changes to the franchise system occur.

<u>Conclusion</u>

The return of the SBA Franchise Directory is a welcome development for franchisors seeking to drive franchise system growth through expanded financing access. However, franchisors must act promptly and strategically to ensure compliance and maximize the advantages the directory offers.

Our firm is closely monitoring the SBA's implementation process and can assist with preparing submissions, reviewing franchise documents for compliance, and advising on communications strategies. If you have questions about the directory or how these changes may impact your franchise system, please contact us.