Scott Tischler
FOUNDER & CHAIRMAN · AIRECOMMEND.AI

FRANCHISE

How to Finance a Franchise: SBA Loans, ROBS, and Creative Options

By Scott Tischler · July 28, 2026 · 10 min read

Most people underestimate how many ways there are to fund a franchise, and overestimate how safe the popular ones are. I've spent years structuring deals creatively in real estate and working inside franchising, and the same principle applies to both: **the structure of your money matters as much as the amount.** How you finance a franchise determines your monthly break-even, how much personal risk you carry, and how much room you have when the ramp-up takes longer than the brochure promised — and it usually does.

This is a practical tour of the real financing menu: SBA loans, ROBS, home equity, seller and creative structures, and partnerships. For each I'll give you the honest pros, cons, and risks, then a framework for choosing. My goal is to make you a sharper buyer, not to sell you on any one path.

One note up front: this is educational and reflects my own experience. It is not personalized financial, investment, legal, or tax advice. Franchise financing has real tax and legal consequences — work with a qualified CPA, attorney, and financial professional before committing.

What Are the Main Ways to Finance a Franchise?

There is no single "right" way to fund a franchise — there's the way that fits your capital, your risk tolerance, and the specific business. Here's the landscape at a glance before we go deep on each:

Option	Typical Best For	Main Risk
SBA 7(a) loan	Buyers with decent credit and some capital	Personal guarantee; you're on the hook
ROBS (retirement rollover)	Buyers with $50K+ in retirement funds	Your retirement is at stake
Home equity (HELOC/cash-out)	Homeowners with substantial equity	Your house is the collateral
Seller / creative structures	Resale or motivated-seller situations	Complexity; requires negotiation

Option	Typical Best For	Main Risk
Partnerships / investors	Buyers short on cash but strong on operations	Shared control and profit
Franchisor financing	Systems that offer it	Limited availability; terms vary

Most real deals blend two or three of these. Now let's get into the tradeoffs.

How Do SBA Loans Work for Franchises?

The **SBA 7(a) loan** is the workhorse of franchise financing, and for good reason. The Small Business Administration doesn't lend directly — it guarantees a portion of a loan a bank makes, which lowers the bank's risk and makes them willing to fund a first-time business owner they'd otherwise decline. Many franchise systems are pre-reviewed for SBA eligibility, which speeds approval.

The pros: Longer repayment terms than conventional loans (often up to a decade for a business without real estate), competitive interest rates, and lower down payments than a bank would require on its own. You keep your retirement intact and you're using the bank's money, not your own savings, for most of the cost.

The cons and risks: You will sign a **personal guarantee** — if the business fails, the lender can come after your personal assets, and for larger loans they'll often want a lien on your home. Approval takes time and paperwork: business plan, financial projections, personal financial statement, and typically a down payment in the range of 10–30% of the project cost. Rates float with the market, so your payment can rise. And a personal guarantee means a franchise that doesn't work out can follow you home.

I like SBA loans for buyers who have reasonable credit, some cash to put in, and a business with predictable cash flow. The leverage is real, but so is the guarantee. Never let the availability of a loan talk you into a business the numbers don't support.

What Is ROBS, and Is Using Retirement Money to Fund a Franchise a Good Idea?

ROBS stands for Rollovers as Business Startups. It's a structure that lets you use money from a 401(k) or IRA to fund a business without taking a taxable early withdrawal or paying the penalty. Mechanically, you form a C-corporation, that corporation sponsors a new retirement plan, you roll your existing retirement funds into that plan, and the plan buys stock in your corporation. The cash flows into the business.

The appeal is obvious: you fund the franchise with money you already have, take on no debt, pay no monthly loan payment, and avoid the early-withdrawal penalty and immediate income tax. For a buyer who's cash-poor but retirement-rich, it can be the difference between owning a business and not.

Now the honest risk, and it's a serious one: ROBS puts your retirement savings directly at stake in a single small business. If the franchise fails, you don't just lose a business — you lose the retirement you spent a career building, with no employer match to rebuild it. You're also concentrating what was a diversified nest egg into one illiquid, high-risk asset. On top of that, ROBS is a compliance-heavy structure: you must maintain a C-corp, run a qualifying retirement plan, follow strict rules, and it draws IRS scrutiny. Get the administration wrong and the whole rollover can be treated as a taxable distribution.

My take: ROBS is a legitimate tool, not a free lunch. I'd only consider it with money I could genuinely afford to lose without wrecking my retirement — never with the bulk of a nest egg I'd need in a few years. And I'd use a reputable provider to set it up and keep it compliant. **The penalty-free access is real; the risk to your future is just as real.**

Can You Use Home Equity to Finance a Franchise?

Yes, and many franchisees do, usually through a **HELOC** (a revolving line of credit against your home) or a **cash-out refinance** (a new, larger mortgage that returns the difference in cash). Home equity is often the cheapest borrowing available to an individual because it's secured by real estate, and it's flexible — a HELOC lets you draw only what you need as you need it.

The pros: Lower interest rates than most business loans or credit, relatively fast access if you have equity and good credit, and no franchisor or SBA approval required. For a franchise with modest capital needs, it can be the simplest option on the list.

The risk is blunt: your house is the collateral. If the business struggles and you can't service the debt, you've put your home in jeopardy. You're also converting equity — a fairly safe, appreciating asset — into a bet on a business. Rising rates on a variable HELOC can squeeze you at exactly the wrong moment, during a slow ramp-up. I've used property-secured borrowing plenty in real estate, but always with a clear repayment plan and a cushion. Never tap your home for a business without both.

What Creative and Seller-Financing Options Exist?

This is where my real estate background carries straight over. In franchising — especially when you're buying an **existing franchise resale** rather than opening a brand-new unit — there's real room to structure the deal instead of just financing the full price with a loan.

- **Seller financing:** The current owner carries a note for part of the purchase price, and you pay them over time out of the business's cash flow. This is common in resales and powerful for two reasons: it lowers the cash you need upfront, and it keeps the seller invested in a smooth handoff because they only get fully paid if the business keeps performing. A motivated seller — retiring, relocating, tired — is often open to it.
- **Earn-outs:** Part of the purchase price is tied to the business hitting agreed performance targets after you take over. This protects you if the seller's numbers were rosy and bridges a gap when buyer and seller disagree on value.
- **Combining structures:** The strongest deals often stack pieces — an SBA loan for the bulk, seller financing for a slice, and some of your own cash. Layering lowers how much of any single risky source you lean on.

The pros of creative structures: less cash upfront, aligned incentives with the seller, and flexibility a standardized loan can't offer. **The cons:** they're more complex, they require negotiation skill and a willing counterparty, and you need good legal and accounting help to paper them correctly. They mostly apply to resales and motivated sellers, not to buying a fresh franchise directly from the franchisor. But when the situation fits, creative structuring is how you buy more business with less of your own money at risk — the same lesson that's served me in real estate.

Should You Bring In Partners or Investors?

Bringing in a **partner or investor** trades equity for capital — and sometimes for skills you lack. If you're strong on operations but short on cash, a financial partner can fund the deal while you run it. If you're strong on capital but new to the industry, an operating partner can bring the expertise.

The upside: you spread the financial risk, you may get money you couldn't borrow, and the right partner adds capability, not just cash. **The downside:** you give up a share of the profits permanently, you share control, and partnerships fail over misaligned expectations more often than over money. If you go this route, define roles, decision rights, profit splits, and an exit path in writing before a dollar changes hands. A handshake partnership is a lawsuit waiting for a bad quarter.

How Do You Choose the Right Financing?

Start with three honest questions, in this order:

1. **How much personal risk can I truly absorb?** Rank the options by what's on the line — creative structures and partnerships spread risk, SBA loans put your personal guarantee at stake, home equity risks your house, and ROBS risks your retirement. Match the structure to the loss you could actually survive.

2. **What does the business's real cash flow support?** Underwrite the franchise conservatively — longer ramp-up, higher costs than projected. A financing plan that only works if everything goes right is a bad plan. Build the payment structure around a realistic downside, not the franchisor's best case.
3. **What blend fits?** The answer is rarely one source. A common sensible mix is an SBA loan for the core, a modest amount of your own cash, and possibly seller financing on a resale — keeping any single risky source, especially retirement money, to a minimum.

The through-line from everything I've done in real estate and franchising is this: **finance for the downside, not the upside.** Cheap, aggressive capital feels great until the ramp-up runs long, and then the structure you chose is either your cushion or your trap. Choose the one that lets you survive a slow start, and you'll still be standing when the business finally hits its stride.

Key takeaways

- There's no single right way to fund a franchise — the best structure fits your capital, risk tolerance, and the specific business, and most real deals blend two or three sources.
- SBA 7(a) loans offer strong leverage and long terms but require a personal guarantee, so a failed franchise can follow you home.
- ROBS lets you fund a franchise with retirement money penalty-free, but it puts your retirement directly at stake and is compliance-heavy — use it only with money you can afford to lose.
- Home equity is cheap and flexible but makes your house the collateral; never use it without a clear repayment plan and a cushion.
- Creative and seller-financing structures, most available on resales, let you buy more business with less cash and align the seller's incentives with yours.
- Choose financing for the downside, not the upside — underwrite conservatively and pick the structure you could survive if the ramp-up runs long.

Frequently asked questions

What is the most common way to finance a franchise?

The SBA 7(a) loan is the workhorse of franchise financing, because the government guarantee makes banks willing to fund first-time owners with longer terms and lower down payments. Many franchise systems are pre-reviewed for SBA eligibility, which speeds approval. The tradeoff is a personal guarantee, so your personal assets are on the line if the business fails.

Is using ROBS to fund a franchise safe?

ROBS is legitimate and lets you use retirement funds penalty- and tax-free, but it is not safe in the sense of being low-risk. It puts your retirement savings directly at stake in one small business and requires strict ongoing compliance. Only consider it with money you could afford to lose without wrecking your retirement, and use a reputable provider.

How much money do I need to put down for a franchise SBA loan?

Down payments commonly land in the range of 10–30% of the total project cost, depending on the lender, the franchise, and your financials. You'll also need to document a business plan, projections, and a personal financial statement. Requirements vary, so confirm specifics with SBA-preferred lenders before you commit.

Can I use my home equity to buy a franchise?

Yes, typically through a HELOC or a cash-out refinance, and it's often the cheapest borrowing available because it's secured by your home. The blunt risk is that your house becomes the collateral, so a struggling business can put your home in jeopardy. Only do it with a clear repayment plan and a financial cushion.

Does seller financing exist in franchising?

Yes, especially when you buy an existing franchise resale rather than opening a new unit. A motivated seller may carry a note for part of the price, which lowers your upfront cash and keeps them invested in a smooth handoff. It requires negotiation and good legal and accounting help to structure correctly.

Should I take on a partner to finance a franchise?

A partner can provide capital you can't borrow or skills you lack, and can spread the financial risk. The cost is a permanent share of the profits and shared control, and partnerships more often fail over misaligned expectations than over money. Define roles, decision rights, profit splits, and an exit in writing before any money changes hands.

What's the safest way to finance a franchise?

There's no universally safe option — each concentrates risk somewhere: SBA on a personal guarantee, home equity on your house, ROBS on your retirement, partnerships on shared control. The safer approach is to blend sources, keep any single risky source small, and underwrite the business conservatively so your plan survives a slow ramp-up.

How do I decide which franchise financing option is right for me?

Start with how much personal risk you can truly absorb, then confirm what the business's realistic cash flow can support, then find the blend that fits. Underwrite for the downside rather than the franchisor's best case. Most sound plans combine a core loan with some of your own cash and, on resales, possibly seller financing — while minimizing use of retirement funds.

About the author. Scott Tischler is the Founder & Chairman of AIrecommend.ai and a practitioner-authority on AI search and Answer Engine Optimization. With 20+ years in marketing technology — including American Express, MetLife, and UBS — and executive study at Wharton, Harvard, Yale, and Oxford, he helps businesses become the ones AI recommends.