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Hearing on *"Driving Economic Growth: SBA Lending Programs and the Vital Role of Community Banks"*

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Good morning, Chairman Williams, Ranking Member Velazquez and distinguished members of the Committee. My name is Frank Wetegrove, and I am a franchise owner of Camp Bow Wow, a dog care services company that my wife and I became franchisees of 18 years ago and have since grown our operation to include four locations in San Antonio, Texas, and one other in Austin. At Camp Bow Wow, we offer everything from dog daycare, boarding to grooming, and training within the communities that we operate. Our team consists of roughly 100 employees. I am also happy to share that this year, we also plan to open a 6th location within our Texas footprint.

I appear today on behalf of the International Franchise Association (IFA), the world's oldest and largest organization representing franchising worldwide. IFA works through its government relations and public policy, media relations, and educational programs to protect, enhance and promote franchising and the approximately 830,876 franchise establishments that support nearly 8.8 million direct jobs, $896.9 billion of economic output for the U.S. economy, representing almost 3 percent of the Gross Domestic Product (GDP). IFA members include franchise companies in over 300 different business format categories, individual franchisees, and companies that support the industry in marketing, law, technology, and business development.

It's an honor to be here today to give my perspective on the impact that the U.S. Small Business Administration's loan programs can have on small businesses, especially franchisors, franchisees, and their employees. Its impact to me is near, as I utilized SBA's 7(a) loan program when I decided to become a franchise owner in 2007 and open our first Camp Bow Wow location in San Antonio. As a retired Colonel with 34 years of service in the Army Reserve along with 8 years in active duty, I'd like to say my skillset came in handy when considering starting a franchise, and SBA's 7(a) loan program was the access to capital that gave me the opportunity to put it to good use.

Today, I will tell you more about my story as a Camp Bow Wow franchisee, as well as franchising generally, and share with you some of the ways that SBA's lending programs can help companies and their brands grow faster and smarter now and into the future. I will also take time to speak to the regulatory climate which is paramount to the franchise community at large and very well complements the capital that is provided by SBA's lending programs.

My Story

I have had the distinct pleasure of serving in the Armed Forces—specifically, the Army. Nearly five years ago, I retired as a Military Intelligence officer. My military career began as a means to fund my college education. I enlisted in the Army, seeking tuition assistance and the Montgomery GI Bill. After completing a two-year enlistment, I returned to Texas and earned a Bachelor of Business Administration in Marketing from the University of Texas – Pan American. Additionally, I hold two master's degrees—one in Information Technology and another in Strategic Studies from the United States Army War College, which remains one of the most rewarding experiences of my lifetime.

Throughout my career, I held leadership positions at every level, including Platoon Leader, Officer-in-Charge, and Commander of Detachments, Companies, a Battalion, and a Group. Beyond my military service, I gained diverse experience across multiple industries, working in my father's farming business before transitioning to roles in insurance, education, and IT (including Tier 1 support, network engineering, cybersecurity, and enterprise security). I also worked as a government contractor and an Air Force Civil Servant. More importantly, I became a husband, a father of five, and now a proud grandfather of four. As you can see, sitting still is not in my nature nor the word "retirement" which isn't in my vernacular.

The Journey to Camp Bow Wow

In 2005, about 20 years into my Army (mostly Reserve) career, I was mobilized to work at the Defense Intelligence Agency. During this time, I contributed to the Pentagon Renovation Program (PENREN), specifically the Command Critical Survivability Program (CCSP). During my first summer in Washington, D.C., my wife and I discussed the possibility of our family spending a month there with me. However, one major challenge arose—what would we do with our dog? He couldn't join us in our temporary living arrangements. Around that time, my wife I explore a business opportunity she had come across. That business was Camp Bow Wow, a franchise that emphasized doggy daycare—something I had never even heard of before. I was immediately intrigued.

Within 24 hours of learning about the brand, I made the decision to move forward. That choice changed my life, my family's life, and ultimately, the San Antonio community. Today, I operate five locations and have a new territory in development, bringing quality pet care services to our community while also creating jobs and opportunities for my employees and family.

When my family and I decided to invest in Camp Bow Wow, it became a true family affair. Since I was still advancing in my career, my wife took on the brunt of running the business. I contributed after hours, on weekends, and during holidays, all while we were also raising toddlers, bring them daily to the facility. Ultimately, I knew this endeavor would teach my family the difference between working for someone else and working for oneself. I am incredibly thankful to say it has been a success in every regard. Moreover, as I approached retirement, I found myself at a crossroads, eager for my next opportunity. What would I do with this newfound time after my Army retirement?

I believe 100% in giving back. Since day one with Camp Bow Wow, I have served more than half of my time on some form of franchise council formulating long-term policies. I have been awarded Franchise of the Year several times. I speak to many of my peers daily. Every chance I get, I speak to people in general and explain to them my success story. The conversation starts with getting to know them, the possibility of owning their own business and future and remind them of the great opportunities that this country provides us including the government assistance program available.

The Franchise Model

Franchising is perhaps the most important business growth strategy in American history. First beginning in 1731, when Ben Franklin entered into a partnership with Thomas Whitemarsh, who franchised Franklin's printing business – *The Pennsylvania Gazette*, the franchise system has served as a core American model over centuries for opportunity and entrepreneurism, contributing to robust job creation and providing foundational skills development for small business owners and workers.

When most people think of franchising, they first focus on the law, and while the law is certainly important, it is not the central tenant to understand franchising. At its core, franchising is about the relationship between the franchisor and its franchisees— how the franchisor supports its franchisees, the franchisor's brand value and how the franchisee then meets its obligations to deliver the products and services to the system's brand standards.

Often affiliated as "big business," franchising is in fact the exact opposite. A franchise is first a local business, distinguished from other local businesses because it licenses the branding and operational processes of a franchisor while operating independently in a defined market. The local owner, or franchisee, like myself, is responsible for hiring staff, organizing schedules, managing payroll, and all daily operational tasks as well as local sales and marketing. The value of franchising then lies in a strategic balance in the relationship between a franchisor and franchisee: the independence of a franchisee to manage its day-to-day operations and connections with its employees, consumers and the local community balanced with the franchise system giving aspiring small business owners a head start toward becoming their own boss, with a proven business model that can set up new business owners for success and easier access to lines of credit than a traditional business.

Despite how it is often characterized, franchising is not an industry, rather it is a business growth model used *within* nearly every industry. Like I mentioned earlier in my testimony, there are more than 300 different sectors that are represented in franchising, and franchised companies offer a huge range of products and services from lodging to fitness, home renovators to hair salons, plumbing to pest control, restaurants, security, lawn care, and yes, even to dog care services, like Camp Bow Wow. So again, franchising is utilized far beyond the fast food brands that many most associate with it. In fact, 60% of franchises are outside of the restaurant sector.

There are two principal explanations for the popularity of franchising as a method of distribution. One is that it "was developed in response to the massive amounts of capital required to establish and operate a national or international network of uniform product or service vendors, as demanded by an increasingly mobile consuming public." The other is that franchising uniquely provides an opportunity for an aspiring business owner to own their own business with a brand, concept, and system for support in place, while having the autonomy to run their own day-to-day business operations. These two motivations are consistent with a business model in which the licensing and protection of the trademark rests with the franchisor, and the capital investment and direct management of day-to-day operations of each franchise unit are the responsibility of the franchisee who owns, and receives the net profits from, its individually owned franchise unit.

It is typical in franchising that a franchisor will license, among other things, the use of its name, its products or services, and its operational processes and systems to its franchisees. The turnkey nature of operating a franchised business is why I and so many of my fellow franchisees purchased a franchise. Franchisees look to the franchisor to protect the trade names, trademarks and service marks (collectively the "Marks") and brand by establishing and enforcing standards on all franchisees in a system. Such standards are essential for protection of franchisees' equity in their businesses and consumers of the brand. These standards allow franchisors to maintain the uniformity and quality of product and service offerings and, in doing so, to protect their Marks, the goodwill associated with those Marks, and most importantly, consumer confidence in the Marks and brand.

2025 Franchising Economic Outlook

For the last several years, franchising has exceeded economic expectations and surpassed the rate of growth of the broader economy. Last week, IFA released its annual Franchising Economic Outlook for 2025, and for the second consecutive year, franchising is experiencing tremendous growth. The report, conducted by FRANdata, an industry-leading research and analytical firm, is IFA's annual study that details the franchise sector's performance for the past year and projected economic outlook for the year ahead. It also provides an in-depth state outlook for all 50 states and Washington, D.C.

The report positively notes that even in the face of ongoing economic uncertainty and policy headwinds in 2024, franchise growth exceeded expectations, highlighted by 2.2% growth in franchise establishments and more than189,000 new jobs. And now, as we turn the calendar year into 2025, the report notes that a stabilizing labor market, easing interest rates, and increasing optimism about our economy are expected to propel franchising further, forecasting that franchise establishments will grow an additional 2.4%.This growth is projected to create approximately 210,000 new jobs across franchising this year, bringing franchise employment to more than 9 million jobs. Some other key highlights from the report that I wanted to bring to the Committee's attention are:

- Projected growth in the number of franchise establishments is expected to increase in 2025 by more than 20,000, or 2.5%, from 830,876 total franchise establishments to 851,000 total establishments.
- Total franchise output in 2025 is projected to exceed $936.4 billion, increasing by 4.4%, from $896.9 billion in 2024.
- Franchise GDP is expected to increase at a pace of 5% to $578 billion, which significantly outpaces the 1.9% growth in the broader economy projected by the Congressional Budget Office.
- The two franchise sectors that are expected to be the fastest-growing industries in 2025 are personal services and then retail food, products, and services, anticipated to increase by 4.3% and 3.5%, respectively.
- Regionally, it is forecasted that growth in the Southeast and Southwest will outpace the rest of the U.S. franchise market this year, with output growing by 6.2% and 8.5%, respectively.
- And as it pertains to states, the top 10 fastest-growing for franchise growth are: Georgia, North Carolina, Virginia, Arizona, South Carolina, Pennsylvania, Tennessee, Florida, Colorado, and Maryland.

So, as we enter into 2025, the economic outlook for franchising is strong and promising. We have favorable economic conditions and supportive regulatory policies which are helping pave the way for such expected growth and expansion across various sectors in franchising. SBA loans are an essential component to providing entrepreneurs with greater access to capital so they can continue to drive economic growth and create meaningful jobs.

To the members of the Committee, I urge that you continue to focus on ways to foster both an economic and regulatory climate that allows for such growth and expansion in franchising to occur. We appreciate the Committee's interest in doing so and would be happy to be a resource as it considers what, if any, action to take.

SBA Lending

None of this would have been possible without the support of the federal government's Small Business Administration (SBA) lending program. The SBA's assistance was instrumental in getting my business off the ground. I know for a fact that many of my fellow franchisees—and countless other small businesses—would not exist without these critical funding programs.

The Small Business Administration (SBA) and the access to capital that its lending programs provide are an instrumental part of the franchise success story. In fiscal year 2024, the SBA guaranteed $31.1 billion in 7(a) loan volume and $6.7 billion in 504 loan volume. Historically, franchises have represented about 20% of SBA loans by dollar volume.

Two years ago, the SBA finalized a number of changes to its affiliation rules, including elimination of the concept of affiliation by control which also resulted in the elimination of the Franchise Directory.

IFA continues to support efforts that streamline government-supported lending programs and recognizes this was the intent of eliminating the principle of affiliation by control in the SBA size standards, which in the case of a franchise was based on franchise agreements. Those determinations required, by their very nature, subjective assessments of contract language. As such, consistency of those determinations, delays in approvals created by occasionally lengthy reviews, and the back and forth with franchisors to reach acceptable agreement language all were impediments to franchisees being able to access the capital they needed to grow. We commend the previous SBA's desire to address these issues and believe that it was a good effort to do so.

However, as part of the affiliation review and use of the Franchise Directory, the SBA conducted an eligibility review, an effort to help lenders from an efficiency standpoint. Unlike other businesses, in franchising there is a set of agreements between a franchisor and the small business franchisees that borrow using SBA-guaranteed loans. In essence, it is a one-to-many review. One-time eligibility review decisions eliminate the need for each lender to review the sometimes lengthy and complicated agreements to assess eligibility. Importantly for franchisors, such reviews avoided the problem encountered years ago where they got inconsistent and often conflicting decisions and requirements from various lenders.

IFA's understanding of the affiliation change now shifts this burden to lenders. This shift may create an inefficiency that will put many franchise brands at a disadvantage. IFA is particularly concerned about access to capital for emerging brands (of which there are hundreds each year) and smaller, regional brands. IFA continues to work with its members and with the lending community to understand how these changes have affected franchise lending in the marketplace.

As you begin the 119th Congress, we appreciate the Committee's attention to this issue given how critical SBA lending is to new franchisees. Banks and borrowers are still adapting to these changes, and we would appreciate any efforts to once again have the use of the Franchise Directory.

Other Regulatory Concerns – Joint Employer Rule

Finally, I would like to highlight a regulatory issue that has the potential to not only strengthen the franchise business model but also supplement SBA lending practices to further support franchise business performance for the years to come. That is, to permanently extend the 2020 National Labor Relations Board's joint employer rule.

In October 2023, the NLRB issued its final joint employer rule, which rewrote the standard for determining how brands and owners could be jointly responsible for the same employees under the National Labor Relations Act (NLRA). The rule threatened the ability of hundreds of thousands of local small business franchise owners, like mine, to make their own employment decisions – as it would ultimately lead to higher costs, less autonomy, and less equity for franchisees. When the joint employer standard was similarly expanded from 2015 to 2017, it cost franchised businesses $33 billion per year in operational costs and led to a 93% increase in lawsuits.

Recognizing the harm this rule would bring, both the House and Senate voted to overturn the joint employer rule on a bipartisan basis in early 2024 using the Congressional Review Act (H.J. Res. 98), which I and other members of IFA commend. In March 2024, a U.S. District Court judge struck down the 2023 NLRB rule, and the joint employer standard reverted to the 2020 rule.

While a reprieve from the previous NLRB's joint employer rule has been welcome news, I wanted to stress the importance that the current, commonsense standard in federal labor law has on franchisees, like mine, and state that any action towards permanently preserving the current NLRB rule would not only protect both businesses and workers, but also create the regulatory conditions that allow both franchisors and franchisees to thrive, grow, and create jobs and opportunities in the communities that they serve. There have been four different joint employer standards in the past decade – the certainty that a permanent joint employer rule would provide strongly complements the impact that the SBA's lending programs have on franchising ability to grow both smarter and quicker.

Conclusion

Mr. Chairman, and distinguished members of the Committee, thank you again for the opportunity to testify. I am happy to answer any questions you may have.