

SBA Franchise Directory Reinstated: Key 2025 Updates for Franchisors and Franchisees

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The U.S. Small Business Administration reinstated the Small Business Administration (SBA) Franchise Directory on June 1, 2025, reversing the 2023 decision to sunset the program. The Directory has long been the primary reference that SBA-certified lenders consult to determine if a franchisee of a brand is eligible for SBA-guaranteed financing.

SBA guaranteed loans are intended to finance independently owned small businesses. For a franchisee to qualify as the owner of such a business, the franchisor must not unduly control the day-to-day operations, such that the person applying as a franchisee is really a passive investor.

Under the updated framework, franchised brands will no longer need to sign the SBA Franchise Addendum (Form 2462), or an addendum specific to franchisees receiving SBA-guaranteed loans that the franchisor had negotiated with SBA. Instead, each brand must execute and submit to the SBA a new Certification that expressly affirms compliance with the eligibility conditions for Directory listing. See SBA Franchise Directory. By issuing the Certification, the franchisor will have agreed not to enforce any provision in its contracts with an SBA-financed franchisee that is inconsistent with the certification.

Any brand that is not yet listed in the Directory may submit its current FDD and signed Certification at any time for review by the SBA. Brands already in the Directory may maintain their status by filing certifications along with their current FDDs on or before July 31, 2025. Until then, lenders may continue to close loans using the familiar SBA addendum, but SBA records will flag each brand as "Certification Pending." On August 1, 2025, any brand that has not submitted a certification will be removed from the Directory, and its franchisees will become ineligible for SBA-backed financing until the brand is re-listed. There is no fee for a directory listing and certifications may be submitted to the SBA at no cost.

One aspect of the certification that is particularly worth highlighting:

"[The] Franchise Agreement does not prevent the Franchisee from having meaningful oversight over the operations of the business. Meaningful oversight includes the authority to: (i.) Approve the annual budget; (ii.) Have control over the bank accounts; AND (iii.) Have oversight over the employees operating the business (who must be employees of the Franchisee). A Franchise Agreement does not prevent a Franchisee from having meaningful oversight over the operations of its business by requiring the Franchisee to comply with quality, marketing, and operations standards that govern the Franchisee's use of the Franchisor's system of operations."

Therefore, companies that market as "franchises" which are primarily passive investment opportunities, are likely to face more scrutiny from SBA regulators concerned that the borrower actually operates the small business seeking funding. Such companies may need to consider making changes to their business model if SBA guaranteed loans are important to their growth strategy.

For franchisees, if you are likely to seek an SBA guaranteed loan to finance your business, or you expect that a purchaser of your franchise might use such a loan to buy you out, then you should make sure that the franchisor has registered with the Directory. If it has not, you may want to ask, “Why not?”