

Updated Business Valuation Requirements for SBA 7(a) Lenders

(also see article by Neal Patel, CBA – [Business Valuation Requirements and Revisions in the SBA SOP 50 10 5\(C\)](#))

Excerpt from [SOP 50 10 5\(C\)](#) - Subpart B - pp. 195 –197

5) Business Valuation Requirements – Change of Ownership

Determining the value of a business (not including real estate which is separately valued through an appraisal) is the **key component to the analysis of any loan application** for a change of ownership. An accurate business valuation is required because the change in ownership will result in new debt unrelated to business operations and create an intangible asset. **A business valuation assists the buyer in making a determination that the seller's asking price is supported by historic operations and permits the buyer to make a reasonable return on his or her investment.**

- a) If the amount being financed (including any 7(a), 504, seller, or other financing) minus the appraised value of real estate and/or equipment being financed is \$250,000 or less, the lender may perform its own valuation of the business being sold, unless the lender's internal policies and procedures require an independent business valuation from a qualified source.
- b) **If the amount being financed minus the appraised value of real estate and/or equipment is greater than \$250,000 or if there is a close relationship between the buyer and seller (for example, transactions between family members or business partners), the lender must obtain an independent business valuation from a qualified source.**
- c) **A qualified source** is an individual who regularly receives compensation for business valuations and is either:
 - 1) A licensed Certified Public Accountant (CPA) that performs the business valuation in accordance with the —Statement on Standards for Valuation Services published by the American Institute of Certified Public Accountants (AICPA); or
 - 2) **Accredited by one of the following recognized organizations:**
 - a. Accredited Senior Appraiser (ASA) accredited through the American Society of Appraisers;
 - b. **Certified Business Appraiser (CBA) accredited through the Institute of Business Appraisers;**
 - c. Accredited in Business Valuation (ABV) accredited through the American Institute of Certified Public Accountants;
 - d. Certified Valuation Analyst (CVA) accredited through the National Association of Certified Valuation Analysts; and
 - e. Accredited Valuation Analyst (AVA) accredited through the National Association of Certified Valuation Analysts.
- d) In order for the individual performing the business valuation to identify the scope of work appropriately, **the business valuation must be requested by and prepared for the lender. The business valuation must include the individual's opinion of value, the qualifications of the individual performing the valuation and their signature certifying to the information contained in the valuation.** The cost of the valuation may be passed on to the Small Business Applicant.

- e) The lender may use a going concern appraisal to meet these requirements if:
 - 1) The loan proceeds will be used to purchase a special use property;
 - 2) The appraisal is performed by an appraiser experienced in the particular industry; and
 - 3) The appraisal allocates separate values to the individual components of the transaction including land, building, equipment and intangible assets.
- f) If the application will be submitted to the LGPC, the business valuation must be submitted as part of the loan application. (See Chapter 6, Paragraph I.A.1. of this Subpart.)
- g) If the application will be submitted under delegated authority, the business valuation may be obtained and reviewed after the issuance of an SBA loan number and prior to closing. If the lender is processing the application under delegated authority and requests the business valuation after issuance of an SBA loan number, the credit memorandum must include an estimate of the value of the business. The credit memorandum must be updated after receipt of the business valuation to include a comparison of the loan amount and the business valuation.
- h) Any amount in excess of the business valuation may not be financed with the SBA guaranteed loan.
- i) Lender Verification of Business Valuation Financial Data

Lender must obtain a copy of the financial information relied upon by the individual who performed the business valuation and verify that information against the seller's IRS transcripts to ensure the accuracy of the information.

Key phrase from Page 148:

...an independent third party hired by the lender with proven experience in business valuations.

Excerpt from [SBA Information Notice 5000-1163](#) - p. 3

Changes [to the SOP] that Seek to Improve SBA's Management of Risk

1. Business Acquisitions: The following revisions have been made: (1) tightening up the requirements concerning who is qualified to perform a business valuation; (2) changing the timing of the requirement to obtain a business valuation to before the application is submitted to the LGPC or, for applications processed under delegated authority, after receipt of the SBA loan number but prior to closing; (3) adding a statement that any difference between the sales price and the business valuation may not be financed with the SBA-guaranteed loan; and (4) adding language to require the lender to verify the financial information relied upon in the business valuation.