

When is a Business Valuation Required for SBA Loans?

By David E. Coffman

Several years ago the Small Business Administration (SBA) included provisions in its Standard Operating Procedures (SOP) that required an independent business valuation (appraisal) from a qualified source under certain circumstances. The current version of these provisions, SOP 50 10 5(C), became effective on October 1, 2010.

Here are the steps necessary to determine if an appraisal is required under the current provisions.

Step 1

Is it a 7(a) guaranteed loan? The valuation provisions only apply to the 7(a) program.

Step 2

Is it a debt refinancing? If no, go to Step 3. If yes, was the debt being refinanced originally used to finance a change in ownership? If yes, a valuation is required. If no, no valuation is required.

Step 3

Does the transaction involve a change in ownership (sale of the company)? If yes, go to the next step. If no, no valuation is required.

Step 4

Are the buyer and seller closely related (family members or partners)? If yes, skip the remaining steps because a valuation is required. If no, go to the next step.

Step 5

Determine the total amount being financed. Financing from all sources including 7(a), 504, seller, and any other sources must be included. If the deal includes real estate then real estate financing must be included.

Step 6

Subtract the appraised value of real estate and/or equipment being financed from the total amount being financed, from Step 5. The key phrase is "appraised value". Without a current appraisal these items cannot be deducted. In practice, although not explicitly allowed by the SOP, the book value of equipment can be deducted if there is no appraisal.

Step 7

Is the result of Step 6 greater than \$250,000? If yes, a valuation is required. If no, no valuation is required.

Once you determine a valuation is needed, what makes it independent and who is a qualified source?

To be independent: 1) the appraiser must be engaged and paid directly by the lender, and 2) the report must be prepared for the lender. The cost of the valuation may be passed on to the buyer. The appraisal report must include the appraiser's: 1) opinion of value, 2) qualifications, and 3) signature certifying the information contained in the report.

When is a Business Valuation Required for SBA Loans?

A qualified source of valuations is defined as either:

- 1) a licensed Certified Public Accountant (CPA) that performs the valuation in accordance with the Statement on Standards for Valuation Services (SSVS) published by the American Institute of CPA's (AICPA); or
- 2) an individual holding one of the following designations:
 - a. Accredited Senior Appraiser (ASA) from the American Society of Appraisers
 - b. Certified Business Appraiser (CBA) from the Institute of Business Appraisers
 - c. Accredited in Business Valuation (ABV) from the AICPA; and
 - d. Certified or Accredited Valuation Analyst (CVA or AVA) from the National Association of CVA's.

It is not clear whether a CPA needs to be licensed in the state where the company is located. Over the past several years CPA laws in most states have been liberalized to allow CPA's licensed in other states to practice within their borders. Most CPA's that do valuations on a regular basis hold one of the other designations, so licensing is usually not an issue. The ABV and CVA designations require their holders to be CPAs.

By following this checklist it is easy to determine whether a valuation is required for a particular SBA loan. If one is needed, follow the guidelines above to ensure obtaining the independent valuation from a qualified source required by the SBA.

To view a video about this topic, or get a Free SBA Valuation Tool Set including a flowchart of the steps outlined above, go to at <http://sbavaluations.biz>.

About the Author

David E. Coffman is a Certified Public Accountant (CPA) who specializes exclusively in small business valuation. He is Accredited (ABV) and Certified (CVA) in Business Valuation, and has valued hundreds of small businesses since 1997. Both of his firms, Business Valuations & Strategies PC and NJ Business Valuations PC, offer discounted, flat-fee to SBA Lenders for valuations that are required for SBA loans.