

- 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.
- 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, 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) Accredited by a recognized organization; or
  - (2) 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).
  - (3) Some recognized organizations and the accreditations they provide include:
    - (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; and
    - (d) Certified Valuation Analyst (CVA) 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) A business valuation may be submitted as part of the loan application to assist with the underwriting or as part of the loan closing.

- (1) If the lender is going to require the business valuation at closing, the loan application must include an estimate of the value of the business and the estimate must be identified in the loan authorization with the requirement for a business valuation that supports the estimated value at time of closing.
- (2) If at time of closing the business valuation:
  - (a) Comes in at 90% or more of the estimated value, the lender may close the loan but must include a written explanation as to why the business valuation is less than the estimated value in the loan file; or
  - (b) Comes in at less than 90% of estimated value, the lender may not close the loan without SBA's prior written permission (see exception below for PLP lenders). The lender's justification to SBA must provide a sufficient understanding of the reasons for the differences in values between the estimated and actual values as well as a recommendation as to a remedy to offset the difference in values such as reducing the purchase price and/or loan amount or obtaining additional equity or collateral. If additional collateral is being required, the lender must identify both the fair market and liquidation values of the additional collateral.
- (3) Exception for PLP Lenders:

PLP lenders are permitted to close a loan when the business valuation is less than 90% of the estimated value but the lender must include a written justification as part of its file that may be reviewed by SBA at time of guaranty purchase or when SBA is reviewing the lender. The justification must include a thorough analysis by the lender of the reasons for the business valuation being low and an explanation as to what steps the lender took to offset the risk from the low business valuation such as reducing the purchase price and/or loan amount or obtaining additional equity or collateral.

#### D. CAPLine Collateral Requirements

1. Applicants must be able to provide the lender with a first lien position on their working assets (i.e. accounts receivable, inventory, or contracts). For Builder's CAPLines:
  - a) SBA will accept no less than a second lien position on the property being constructed or renovated if the purpose of the first lien was to acquire the property. If the property is part of a subdivision where the prime lender for the subdivision holds a first lien OR serves as partial collateral for a loan secured by more than one parcel of real estate, the first lienholder must provide a "release clause" for transfer of clear title to any eventual buyer of individual parcels upon receipt of a pre-established payment.
  - b) Do not take a second lien position if the first lienholder requires that the entire loan be paid in full before any property is released. Where