

Business Acquisition/Goodwill

U.S. Small Business Administration



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http://www.sba.gov/aboutsba/sbaprograms/lelending/lgpc/index.html

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LGPC SBA Program Office SBA Programs

Standard 7a Loan Guaranty Processing Center (LGPC)



6501 Sylvan Road
Citrus Heights, CA 95610
Phone: (916) 735-1515 ext. 4368
Fax: (916) 930-2180

262 Black Gold Blvd
Hazard, KY 41701
Phone: (606) 436-0801
Fax: (606) 435-2400

[Mission Statement](#)
[Forms Library](#)
[Center Contact Phone List](#)

Resources

- > [Top Ten Screen Out Reasons](#)
- > [Submit 7\(a\) Loan Documents Here](#)
- > [Email 7\(a\) Questions Here](#)

Business.gov | ExpectMore.gov | Strengthening Social Security | Health Care | SBA RESOURCE PARTNERS

> USA.Gov > E.Gov > Regulations.gov > White House > SBW 2007

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Business Valuations

- SBA considers a change of ownership to be a “new” business because it will result in new, unproven ownership/management and increased debt unrelated to business operations.
- a) The lender’s loan documentation must include:
 - (1) A business valuation (not to include any real estate) by the lender or an independent third party hired by the lender with proven experience in business valuations. SOP 50-10(5)(A) pg 138
- For a change of ownership, discussion/analysis of business valuation (based on generally accepted valuation methods used for the pertinent industry) used to support the purchase price. (See Paragraph II.C.5 of this chapter for business valuation requirements.) SOP 50-10(5)(A) pg 173

Business Valuations (continued)

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.
 - (e) The lender may not use a business valuation provided by the seller or the buyer to meet these requirements.
 - (f) 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, intangibles and goodwill (“blue sky”).

Business Valuations (continued)

4. Additional Appraisal Requirements for Changes of Ownership For businesses that have been transferred within 36 months prior to the date of the loan application and the loan amount is more than \$250,000, SBA requires:

- a) an appraisal of the business real estate that meets the appraisal requirements above; and
- b) Either a "review" of the appraisal by another appraiser selected directly by the lender or a site visit by a senior member of the lender's staff. The lender must document the file and include the date of the visit and a description of the items reviewed on site.

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 "blue sky" or goodwill. A business valuation assists the lender and the buyer in making the determination that the seller's asking price is supported by historic operations.

- 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:

Change of Ownership Additional Submission Guidance

In order to expedite our consideration the following information should be provided (when appropriate) as part of each request for guaranty when any portion of the proposed loan's proceeds will help finance a "change of ownership" within the context of SOP50-10(5)(A).

Check the appropriate box (Yes, No, N/A) with respect to each item's availability and then reference where SBA may find this data within the submitted document. For example: If the discussion of repayment is contained on page 3 of the lender's Credit Memo, the Location Box would be filled in "CM, Page 3". If the information is provided as a separate attachment, the Location Box would reference that attachment.

List of Reference Documents

Credit Memo	CM	Business Appraisal	BA
Buy/Sell Agreement	BS	Seller's Note	SN
Tax Return	TR	Business Plan	BP
Buyer Forecast	BF	Attachment	A-1

Description of Requested Information or Analysis	Y	N	N/A	Location
1. Explanation of the Transaction (parties, price and terms, stock/asset sale, earnout, etc.)				
2. Purchase Price and Breakdown of Source of Funds to Purchase Business				
3. Allocation of Purchase Price (per IRS requirements and Form 8594)				
4. Book Value of Acquired Tangible + Intangible Assets Less Book Value of Assumed Liabilities				
5. Documentation Describing Borrower Contribution				
6. Analysis of Seller Financing (amount, type and amount of standby provisions, etc.)				
7. Role/Compensation of Seller (training period, employment contract, incentives, etc.) During 1 st Year of New Ownership				
8. Role/Compensation of Borrower During 1 st Year of New Ownership				
9. Source of Buyer Funds to Support Working Capital, Capital Expenditures, etc. During First Year				
10. Evaluation of Buyer/Borrower Work/Entrepreneurial/Management/Credit Experience				
11. Lender Analysis of Historical and Projected Debt Service (based on proposed financing terms)				
12. Adjustments Made to Historical Profits to Reach Cash Flow Figures (as used to assess debt service)				
13. Justification and Support for Assumed Growth Rate in Revenues/Earnings/Cash Flow During First Year				
14. Was Business Appraisal compliant with USPAP and SOP50-10(5)(A)?				
15. Did Business Appraiser Clarify/Support Cash Flow and Cap Rate/Multiple Determination?				

Description of Requested Information or Analysis and Location

1. Explanation of the Transaction (parties, price and terms, stock/asset sale, earn out, etc.)
2. Purchase Price and Breakdown of Source of Funds to Purchase Business
3. Allocation of Purchase Price (per IRS requirements and Form 8594)
4. Book Value of Acquired Tangible + Intangible Assets Less Book Value of Assumed Liabilities
5. Documentation Describing Borrower Contribution
6. Analysis of Seller Financing (amount, type and amount of standby provisions, etc.)
7. Role/Compensation of Seller (training period, employment contract, incentives, etc.) During 1st Year of New Ownership
8. Role/Compensation of Borrower During 1st Year of New Ownership

Description of Requested Information or Analysis and Location (continued)

9. Source of Buyer Funds to Support Working Capital, Capital Expenditures, etc. During First Year
10. Evaluation of Buyer/Borrower
Work/Entrepreneurial/Management/Credit Experience
11. Lender Analysis of Historical and Projected Debt Service (based on proposed financing terms)
12. Adjustments Made to Historical Profits to Reach Cash Flow Figures (as used to assess debt service)
13. Justification and Support for Assumed Growth Rate in Revenues/Earnings/Cash Flow During First Year
14. Was Business Appraisal compliant with USPAP and SOP50-10(5)(A)?
15. Did Business Appraiser Clarify/Support Cash Flow and Cap Rate/Multiple Determination?

Questions and Answers

- There is a notice coming out soon that will modify what we have been doing. And;
- YES, there will be a SOP 50-10(5)(B) coming out in August that will probably modify it more.

Future Developments for the Center

- ARC loans
- eTran – 7a Submissions
- 800 number (actually an 877 number)
- Complete line by line closing instructions for lenders
- Dealer Floor Plan

Call Center and Email Boxes

- Call Center numbers 916.735.1986 or 916.735.1996
- Email Box for questions: 7aquestions@sba.gov
- Email Box for loan documents and trailing documents: 7aloanprogram@sba.gov
- Document drop off on the website for large documents

Standard 7(a) Loan Guaranty Processing Center (LGPC)

The center's internet address is:

www.sba.gov/aboutsba/sbaprograms/elending/index.html

The center's mail address is:

262 Black Gold Blvd, Hazard, Kentucky 41701

Phone: (606) 436-0801

Fax: (606) 435-2400

or

6501 Sylvan Rd., Citrus Heights, California 95610

Phone: (916) 735-1986

Fax: (916) 735-1554