

#### 4. Additional Appraisal Requirements for all 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 Appraisal Requirements – Change of Ownership**

Determining the value of a business (not including real estate which is separately valued through a real estate appraisal) is the key component to the analysis of any loan application for a change of ownership. An accurate business appraisal is required because the change in ownership will result in new debt unrelated to business operations and potentially the creation of intangible assets. A business appraisal assists the buyer in making a determination that the seller's asking price is supported by an independent qualified source.

##### a) **Non-Special Purpose Properties**

- i. 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 appraisal from a qualified source.
- ii. **If the amount being financed (including any 7(a), 504, seller, or other financing) 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 appraisal from a qualified source.**
- iii. A "qualified source" is an individual who regularly receives compensation for business appraisals and is 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.
- (f) Accredited Business Certified Appraiser (ABCA) accredited through the International Society of Business Analysts.

**b) Special Purpose Properties** (A “Special Purpose Property” is a limited-market property with a unique physical design, special construction materials, or a layout that restricts its utility to the specific use for which it was built.)

- i. 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 appraisal from a qualified source.
  - ii. When the loan financing any portion of the acquisition of a business is over \$250,000 or if there is a close relationship between the buyer and seller (for example, transactions between family members or business partners) and the business operates from a Special Purpose Property, the lender must obtain an independent appraisal performed by a Certified General Real Property Appraiser.
  - iii. The appraisal must allocate separate values to the individual components of the transaction including land, building, equipment and intangible assets.
  - iv. The Certified General Real Property Appraiser must have completed no less than four going concern appraisals of equivalent special use property as the property being appraised, within the last 36 months, as identified in the qualifications portion of the Appraisal Report.
  - v. Each appraisal assignment under this section must be undertaken with a specific instruction for the Certified General Real Property Appraiser to conduct the appraisal in compliance with current USPAP guidelines.
- c)** In order for the individual performing the business appraisal to identify the scope of work appropriately, the business appraisal must be requested by and prepared for the lender. The scope of work should identify whether the transaction is an asset purchase or stock purchase and be specific enough for the individual performing the business appraisal to know what is included in the sale (including any assumed debt). The business appraisal must include the individual’s opinion of value, the qualifications of the individual performing the appraisal and their signature certifying to the information contained in the appraisal. The lender may not use a business appraisal prepared for the applicant or the seller. The cost of the appraisal may be passed on to the Small Business Applicant.

- d) If the application will be submitted to the LGPC, the business appraisal must be submitted as part of the loan application. (See Chapter 6, of this Subpart.)
- e) If the application will be submitted under delegated authority, the business appraisal 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 appraisal 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 appraisal to include a comparison of the loan amount and the business appraisal.
- f) Any amount in excess of the business appraisal may not be financed with the SBA guaranteed loan.
- g) Lender Verification of Business Appraisal Financial Data

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

#### D. CAPLine Collateral Requirements

1. The CAPLines programs listed below have specific collateral requirements as follows:

**a) For Working Capital CAPLines:**

- i. If the lender will disburse the line based on a borrowing base certificate, the lender must obtain a first lien on the applicant's working/trading assets (i.e., accounts receivable, inventory).
- ii. If the lender will not use a borrowing base certificate to disburse the line, the lender must assume full utilization of the revolving line of credit and secure the line with sufficient collateral to ensure there is a 1:1 collateral ratio. Lender must obtain a first lien position on the working/trading assets (accounts receivable and inventory) financed with the line. If the working/trading assets are insufficient to provide a 1:1 collateral ratio, the lender also must take additional collateral to ensure there is a 1:1 collateral ratio. If business assets do not fully secure the loan, the lender must take available equity in personal real estate owned by the principals as collateral to ensure there is a 1:1 collateral ratio. (See Chapter 7, Paragraph IV.H.4 of this subpart for further guidance.)

**b) For Builder's CAPLines:**

- i. 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.