Changes in the SBA's Standard Operating Procedures (SOPs) For Change of Ownership, Goodwill & Business Valuation

Financing a Change of Ownership - INTANGIBLE ASSETS ... Including Goodwill - Page 141, 185, 186:

- Now defines "**intangible assets**" as including, but not limited to, **goodwill**, client/customer lists, patents, copyrights, trademarks and agreements not to compete.

  Intangibles Policy:

- Change of ownership loans that include purchase of intangible assets are allowed.

  Equity Injection Requirement:

- If **PURCHASE PRICE includes intangible assets** [not just goodwill] **in excess of $500,000** then:

  - Borrower and/or seller must provide an **equity injection** of **at least 25% of the purchase price of the business** to use delegated authority.

  - **Seller Equity** = Seller-take back financing that is on **full stand-by** (no payments of principal or interest) for **at least 2 years.**

  - Borrower and seller will agree how much equity each will provide: Ex: borrower may provide 10%, seller may provide 15%**Total must equal at least 25%.**

- Exception processing: If the **LOAN AMOUNT allocated to intangible assets exceeds $500,000** (i.e., amount for the purchase of intangibles), and there is **less than 25% equity injection**, loan **must be submitted** though the Loan Guaranty Processing Center (LGPC). NO processing under delegated authority.

- If **purchase price of business** includes **less than $500,000 for intangibles**, **equity** requirement **does not apply** (loan can be processed under delegated authority).

- **Refinancing Seller Take-Back Financing with an SBA Loan - page 142 "**The lender may consider refinancing any seller take-back financing with an SBA-guaranteed loan if it has been in place for at least 24 months following the change of ownership and is, and has been, current for the past 24 months. The refinancing request must meet the requirements set forth in paragraphs C.3 and 4 above. If a business valuation was completed in the last 36 months, a new business valuation will not be required."

- **<u>Note:</u> Page 184, 186:** When discussing going concern appraisal requirements, the term "blue sky" has been replaced with "intangible assets".

<u>Business Valuation Scope of Work</u> - page 186:

- 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.

<u>Valuation as part of Closing</u> - page 187:

- Adds language similar to that found in appraisal section describing requirements when a lender requires business valuation at closing (valuation estimate in loan application and Authorization with stipulation that "a business valuation that supports the estimated value at time of closing" is required. At closing, valuation more than 90% of estimate, lender may close loan, but must provide written explanation as to why. If valuation at closing is less than 90% of estimated value, must have SBA's prior written permission.

- **<u>Exception</u>**: 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.