

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 an intangible asset. A business valuation assists the buyer in making a determination that the seller's asking price is supported by historic operations and permits the buyer to make a reasonable return on his or her investment.

- 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, unless the lender's internal policies and procedures require an independent business valuation from a qualified source.
- b) 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 valuation from a qualified source.
- c) A "qualified source" is an individual who regularly receives compensation for business valuations and is accredited by one of the following recognized organizations:
 1. Accredited Senior Appraiser (ASA) accredited through the American Society of Appraisers;
 2. Certified Business Appraiser (CBA) accredited through the Institute of Business Appraisers;
 3. Accredited in Business Valuation (ABV) accredited through the American Institute of Certified Public Accountants;
 4. Certified Valuation Analyst (CVA) accredited through the National Association of Certified Valuation Analysts; and
 5. Accredited Valuation Analyst (AVA) 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 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 valuation to know what is included in the sale (including any assumed debt). 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 lender may not use a business valuation prepared for the applicant or the seller. The cost of the valuation may be passed on to the Small Business Applicant.