SBA Business Valuation

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An insider's perspective:
All certified valuations, including those prepared for the Small Business Administration "SBA", are prepared using generally accepted valuation standards and methods. But SBA valuations must also adhere to SBA SOP 50 10 (7).1. This 400+ page document is the rule book for everyone involved in SBA lending—from banks and Certified Development Companies "CDCs" to environmental engineers and business appraisers. And this voluminous document places special emphasis on the importance of the business valuation. In fact, the SOP states, “A business valuation is the essential element in determine the reasonableness for making a business acquisition loan.”

It is important to understand that the SBA does not make loans, instead they provide a guarantee to the lender (the bank). In the event of a default the SBA will reimburse the lender for up to 75% of their loss.

Who needs a valuation anyway?
The most common loan product used for business acquisitions is the 7(a). The lender is required to order an independent business valuation if the sells price includes intangible assets greater than $250k or if the buyer is a closely related party e.g., family member, long time employee, etc.

Who can prepare an SBA valuation?
The SOP goes on to delineate the qualified sources for business valuations. The list of qualified valuators must hold one of the following credentials:

1. Certified Valuation Analyst
2. Accredited Senior Appraiser
3. Accredited in Business Valuation
4. Certified Business Appraiser.

An important distinction between valuation analysts is that some are also licensed Certified Public Accountants "CPAs." This is an important difference because CPAs are also trained to decipher complicated accounting and tax issues. In turn the CPA/Valuation Analyst can help customers make more informed lending decisions. They can help vet deals early to address issues on the front end. The government guaranteed portion of any loan cannot exceed the valuation. Thus, it is critical for the lender to properly vet the deal price before it makes its way to the independent business appraiser.

Updates
The SOP was refreshed in October 2023. The biggest change is that partial interests are now a permitted use of the SBA program. Previously, owners could not remain in a business for a period of more than twelve months, and they had to sell all their interest to the buyer. Now an owner can sell a partial interest to a buyer/borrower using an SBA loan and continue to work for the business and own a partial interest. This provision will help with partner/shareholder buyouts, family business ownership decisions, and more.

Final thoughts
If you are ready to move forward with buying or selling a business or if you are just starting your exit strategy, the SBA loan products offered by your bank of choice can be an attractive means to buy or help sell the business of your dreams. The updated SOP provides more flexibility than ever.