

## BUSINESS VALUATIONS & SMALL BUSINESS ADMINISTRATION LOANS: BE PREPARED FOR THE OPPORTUNITY

The improving business climate presents new opportunities for banks, as small businesses change hands and new owners seek financing, often through Small Business Administration (SBA) loans. To protect the integrity of loans secured through the SBA, current SBA Standard Operating Procedures (SOP) require an **independent business valuation** by a **qualified source** for loans originating as a result of a change in ownership when:

- the amount being financed, minus the appraised value of real estate and equipment, is more than \$250,000, or
- a close relationship exists between the buyer and seller (for example, business partners or family members).

This requirement is intended to minimize or eliminate the possibility of valuations being performed by brokers or other parties with an interest in the transaction's outcome.

While some banks already have experience with this requirement, many do not. Even banks that are making SBA-type loans for asset-based businesses may not have gained an in-depth understanding of the independent valuation requirement.

### HOW DOES THIS REQUIREMENT IMPACT YOUR BANK'S SBA LOANS?

First, the SOP requires an **independent** business valuation. This means that you, as the lender, must request the business valuation. You may not use a valuation prepared for the buyer or the seller, although you may pass on the cost of the valuation to the buyer.

Second, the valuation must be performed by a **qualified source** — someone who regularly receives compensation for business valuations and has at least one of the following certifications or accreditations:

- Accredited Senior Appraiser (ASA) accredited through the American Society of Appraisers;
- Certified Business Appraiser (CBA) accredited through the Institute of Business Appraisers;
- Accredited in Business Valuation (ABV) accredited through the American Institute of Certified Public Accountants;
- Certified Valuation Analyst (CVA) accredited through the National Association of Certified Valuators and Analysts; and/or
- Accredited Valuation Analyst (AVA) accredited through the National Association of Certified Valuators and Analysts.

### THE BOTTOM LINE

Certain SBA loans require an independent business valuation performed by a qualified source.

A qualified source is someone who regularly receives compensation for business valuations and has a specified valuation certification.

The lender must request the business valuation as opposed to using a valuation prepared for the buyer or seller.

Lenders should seek out business valuers that thoroughly understand and meet the SBA guidelines and can provide timely and accurate results.

If your clients are involved in acquisitions, utilize SBA 7(a) loans, and the purchase requires a business valuation, it is important that you verify the independence and qualifications of its business valuation experts.

### QUALIFYING THE QUALIFIED SOURCE

Once you have identified a business valuator as an independent, qualified source, there are some additional factors to consider to ensure that the independent business valuator can support your needs, whether you make only a few of these SBA loans each year or hundreds.

***Can the independent valuator provide complete, accurate results?*** Look for a team of credentialed business valuers and staff with the resources to review each valuation report for accuracy and completeness.

***Do they thoroughly understand the SBA requirement?*** Experience in doing this kind of business valuation is a good measure of the valuator's understanding of the requirements. Look for a valuator with experience in business valuations of companies with a wide range of revenues and in a variety of industries.

***Can they meet your schedules?*** Timeframes may be short in the SBA loan process. Be sure that the independent business evaluator understands this, provides realistic estimates of time to complete the work, and has a track record of meeting the estimates.

By addressing these considerations now and identifying a qualified evaluator with the skills and resources to conduct business evaluations for SBA loans, you will have ready access to the resources to complete the required independent evaluations correctly and in a timely manner.

### A FEW WORDS ABOUT THE HORNE LLP BUSINESS VALUATION TEAM

HORNE LLP has a skilled team of credentialed, qualified business valuation experts who provide competitively-priced business valuation services for SBA loans. This team has in-depth experience working with businesses in a wide range of industries and with annual revenues from hundreds of thousands to hundreds of millions. The HORNE business valuation experts are committed to providing banks with business valuations that are timely, accurate, cost-effective and in accordance with the SBA requirements.

## CONNECT WITH US TO GET STARTED.

Contact your HORNE advisor, go to our website, or call 601.326.1000 for insights and assistance with questions.



Clients turn to HORNE for the foresight, straight talk, and collaboration needed to navigate the challenges of growth, regulatory compliance and risk mitigation. HORNE is a decidedly different CPA and advisory firm who goes beyond traditional accounting services, steering clients through the uncertainties and opportunities ahead.