

p. 81 – Acceptable Use of Loan Proceeds:

Business Acquisition, Working Capital, Furniture, Fixtures, Machinery, Equipment, Real Estate, Refinance Business Debt

p.153 – Loan Maturity:

Maximum Maturity is 10 years unless largest % of assets financed is Real Estate then maturity may be up to 25 years

p. 139 – 141 – Change of Ownership “rules”:

1. Change must result in small business applicant purchasing or acquiring 100% ownership interest in business; Non-owner cannot purchase a partial ownership from seller, and existing owner cannot purchase ownership from a partner if transaction does not result in 100% ownership by purchaser;
2. Seller may not remain as officer, director, stockholder or key employee of the business; may contract as a consultant for no longer than 12 months after purchase;
3. Loan applicant must be a business, not an individual;
4. Lender must verify with IRS the last 3 years tax returns of business being sold;
5. Any Real Estate that is part of a change of ownership cannot be financed separately with a non-SBA guaranteed loan unless SBA loan receives a shared lien position on the real property. (Does not apply to SBA 504 program);

6. SBA considers change of ownership to be a “new” business. Lender is required to:

- a. Obtain a business valuation (*see valuation below)
- b. Make a site visit of assets being acquired
- c. Obtain a Real Estate appraisal for any real property acquired
- d. Analyze how the change of ownership will benefit the business being purchased (not buyer or seller);

7. SBA loan can finance intangible assets (goodwill, client/customer lists, patents, copyrights, trademarks and agreements not to compete, etc.)

- a. If purchase price of business includes intangible assets in excess of \$500,000, the borrower and/or seller must provide an equity injection (**see equity requirements below) of at least 25% of the purchase price – or a lender cannot process the application using PLP, and the application must be approved through SBA.
- b. “Purchase Price of Business” includes all assets being acquired, including any real property, equipment, and intangible assets.
- c. Value of intangible assets is determined by either i) book value reflected on business’s balance sheet, ii) separate appraisal for the particular asset, or iii) the business valuation minus the sum of working capital assets and fixed assets being purchased.

p. 187 – 188 – Equity Requirements:

1. Lender must determine and document adequacy of equity injection.
2. Source of Equity Injection:
 - a) Cash that is NOT borrowed (can be backed by a gift letter if supported by documentation in 3 below);
 - b) Cash from a personal loan IF repayment of that loan can be demonstrated from sources other than cash flow of business or owner salary from business;
 - c) Personal assets, other than cash, injected by owners where value is supported by an outside appraisal, not part of business valuation;
 - d) Debt that is on FULL STANDBY (no payments during term of SBA loan) or debt on PARTIAL STANDBY (interest-only payments being made). Partial Standby debt can only be considered as equity when there is adequate historical business cash flow available to make the interest payments.
3. Lenders must document and verify all equity injection prior to disbursement of loan proceeds. Borrower must provide:
 - a) copy of a check or wire transfer along with evidence that the check or wire was processed showing the funds were moved into the borrower's account or escrow;
 - b) copy of the statements of account from which the funds are being withdrawn for each of the two most recent

- months prior to disbursement showing that the funds were available; and
- c) subsequent statement of the borrower's account showing that the funds were deposited or a copy of an escrow settlement statement showing the use of the cash.

p. 194–195 – Business Valuation for Change of Ownership:

Lender must determine the value of the business in addition to any real estate, which is valued separately through an appraisal.

1. If total amount being financed, minus *appraised value* of real estate and/or equipment being financed is under \$251,000, lender may perform their own valuation;
2. If GREATER than \$250,000 or if there is a close relationship between buyer and seller, then *lender must request* an independent valuation from a “qualified source” that regularly receives pay for business valuations and is either CPA or accredited by a recognized organization listed on page 194 of SOP.
3. Lender may use a going concern appraisal to meet valuation requirement if i) loan is used to purchase a special use property, ii) appraiser is either a “qualified source” or has completed a specific Appraisal Institute course, and iii) appraisal allocates separate values to land, building, equipment and intangible assets.
4. Any amount in excess of business valuation may NOT be financed with the SBA guaranteed loan.