

**SBA LOAN BUSINESS VALUATIONS:
CONSIDER THE INTANGIBLES - AND DOUBLE CHECK THE NUMBERS**

Business Valuations: You gotta have 'em when there's a change of ownership in businesses secured by SBA loans. Because business valuations analyze overall operations, as differentiated from tangible assets such as real estate, property and equipment, the SBA regards them as key components in helping buyers know what they're buying and determining that the seller's asking price is supported by historic operations.

In effect, you're working with a new loan. And you're lending on more than the brick and mortar. In the case of a doctor purchasing a medical practice, they're buying more than x-ray machines and examining tables. They're buying a patient list.

Requirements for business valuations are covered in [SOP 50 10 5 \(E\)](#). For 7(a) and 504 loans financed at \$250,000 or less you may perform the business valuation internally unless your policies require a valuation performed by a qualified outside source. For loans financed at more than \$250,000, you must hire a qualified appraiser.

Key. Critical: Hiring the right appraiser. Performing a business valuation takes a different skill set than what's needed for regular real estate appraisals. The SBA takes a good hard look at goodwill issues because there's value in the expertise of the people running the business. Also, how much of the business are intangibles? Or how much is pie in the sky?

As consultants, we often see brokers doing business valuations and it's a risky approach. The SOP defines "qualified outside source" as a person who regularly receives compensation for business valuations and is either a licensed Certified Public Accountant (CPA) who performs the business valuations in accordance with the "Statement on Standards for Valuation Services" published by the American Institute of Certified Public Accountants (AICPA) or is accredited by one of the recognized business appraiser/business valuation organizations.

Going a step further, you should perform due diligence in the same way you work with any outside party. And always, always run your own internal evaluation to substantiate the appraisal.

From our point of view, it's absolutely necessary for someone in your organization to review business valuations carefully. Just because you get a number, you need to determine whether to accept the validation. As a general rule, you should always review any third-party reports and appraisals especially when listing value. If the loan goes to liquidation, you can be sure the SBA will read them. At J.R. Bruno & Associates, when we do portfolio reviews we read business valuations thoroughly - and we always check to see if someone from the financial institution reviewed the appraisal and signed off on it.

And that's just the tip of our services' ice berg! As a longtime SBA Lender Service Provider, we know the ins and outs of SBA lending from more than 18 years of assisting hundreds of lenders across the country. We can assist you in managing your SBA portfolio. Call JRB at 415.362.1200. Or visit www.jrbrunoassoc.com.

We look forward to working with you!

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