

April 2, 2014

The Honorable Kurt Schrader
U.S. House of Representatives
Washington, DC 20510

Dear Representative Schrader:

Acting Administrator Markowitz has asked me to respond to your recent inquiry regarding “going concern” appraisals in the 7(a) Loan Guaranty Program (7(a) Program) of the U.S. Small Business Administration (SBA). More specifically, you have questioned who can perform a going concern appraisal that satisfies the business valuation requirements in a change of ownership transaction in the 7(a) Program.

The 7(a) Program allows a small business applicant to use an SBA-guaranteed loan to acquire an existing small business, referred to as a “change of ownership” transaction, under certain circumstances. SBA believes that the key component to the proper analysis of any loan application for a change of ownership is determining the value of the business being acquired (not including real estate, which is separately valued through an appraisal). Thus, in these transactions, SBA requires a business valuation in addition to a real estate appraisal. For change of ownership transactions that include special use property (e.g., gas station, car wash, motel), the required business valuation must be completed by a professional with appropriate experience in both evaluating an operating business and valuing real estate. In these circumstances, SBA permits the use of a going concern appraisal to satisfy the business valuation requirement. SBA permits lenders to rely on such appraisals because they include a valuation of the business operation, including industry and market trends, as well as the real estate.

SBA continues to review the risks to the Agency involved with small business acquisition loans that include special use property, as well as the borrower costs associated with such transactions. We are currently working with Federal financial regulators, SBA lenders, industry groups (in both the appraisal and lending industries), and other stakeholders to ensure that we have identified all of the risks involved in such transactions and to identify best practices that will mitigate those risks and protect the interests of the Federal taxpayer. Once that process is completed, we will provide additional guidance and an update, as appropriate, to Standard Operating Procedures (SOP) 50 10 5(F).

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We appreciate your support of SBA and America's small businesses. If you or your staff have any questions, please contact Daniel Krupnick, Deputy Assistant Administrator of the SBA Office of Congressional and Legislative Affairs, at (202) 205-6806. A similar letter is being sent to Representatives Bachus, Chabot, Duffy, Fincher, Huelskamp, Kuster, Luetkemeyer, Miller, Mulvaney, Murphy, Payne, Perlmutter, Stivers, and Tipton.

Sincerely,

Ann Marie Mehlum
Associate Administrator
Office of Capital Access