



News Release

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SBA Revises Goodwill Lending Provisions in SOP; Will Consider Higher Limits Case-by-Case

WASHINGTON –The U. S. Small Business Administration announced that it is accommodating concerns raised regarding the recently announced policy guidance on the financing of goodwill. SBA will consider loans for larger goodwill amounts on a case-by-case basis through August 31, 2009. The announced policy guidance originally allows SBA loans to be used to finance goodwill, but limits that financing to no more than half the loan amount, up to \$250,000.

“We are aware of the concerns surrounding SBA limits to goodwill lending and are taking measured steps to address those concerns in a responsible manner,” said SBA Acting Administrator Darryl K. Hairston. “SBA is committed to helping our lending partners finance small business, but access to capital must be balanced by our need to manage the risks in our portfolio and the implications those risks have for potential costs to the taxpayers.”

“Goodwill” is the difference between what a buyer pays for an existing business and the book or fair market value of the assets of the business. Goodwill is one of the riskiest assets that can be financed, because it typically has no liquidation value in the event a loan defaults.

Until the new Standard Operating Procedures, or SOP, were issued for SBA loan programs last year, the previous guidance for goodwill was that sellers should finance it when a business was sold. However, as lenders increasingly used SBA-guaranteed loans to finance business sales, the agency issued more specific guidance, which was due to take effect on March 1, 2009.

The new guidance, issued February 6, 2009, allowed use of SBA-backed loans to finance goodwill up to a maximum of 50 percent of the loan amount, up to a maximum of \$250,000. The agency received comments from lenders and business brokers expressing concern that such limit would effectively stop business acquisitions at a time when many newly unemployed individuals are considering the purchase of a business.

After thorough consideration of the comments, SBA decided to review loan applications that do not meet the guidance in the SOP on a case-by-case basis. SBA will use the next six months to study the types of transactions involving substantial goodwill and consider a revision of the current policy when the semi-annual update of SOP 50 10 is published in September of 2009.

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