

From the SBA:

I can provide you with the most current guidance we have received regarding the change of an ownership of a business who has received benefit of PPP financing

As a Delegated Lender under the PPP program, a Lender would follow the SOP 50 10 5 (K) 327 Matrix and in particular the Footnote Item no. 17, which has been attached for your reference, when the principals / ownership of the borrowing entity is changing. NOTE: SBA does not review documentation relied upon to be read and approved by a Delegated Lender.

Keep in mind the PPP loan's proceeds were not funded as part of a project to finance a change of ownership. They were specifically issued for the benefit of the borrowing business entity's payroll and other operating expenses, etc., as originally reported in Etran.

A PPP borrower may sell their business during the period when the PPP loan is outstanding and before forgiveness has been granted. In such a scenario, the seller and buyer must work with the lender (or the Lender that is servicing the PPP loan) to have the buyer assume the PPP loan and continue to use any remaining PPP loan proceeds for payroll costs and other eligible payments of mortgage interest, rent and/or utilities in accordance with PPP requirements. If the buyer applies for loan forgiveness, the buyer will be subject to all applicable reductions and any issues related to eligibility that would have applied to the seller, including the possibility that forgiveness will be denied in whole or in part. (Only the buyer will be able to apply for forgiveness in this scenario.)

If the business entity is now party to a stock/membership transfer agreement or stock/membership redemption agreement; whereby, the principal holders are selling their interest to either a new third party buyer(s) or the business entity will be redeeming a current holder(s) shares/interest, the PPP loan will always remain in the name of the original entity with the principals' ownership being updated in accordance with the Purchase/Redemption Agreement's provision, in Etran. The terms and obligations of the PPP guaranty and its requirements to be able to submit for forgiveness are highly recommended to be acknowledged in the Agreement, in order for the new principals to understand the PPP guaranty process.

In order to update Etran in accordance with the above guidelines, a Lender should be prepared to provide:

- 1. Confirmation that Lender has reviewed the Stock/Membership Purchase/ Redemption or Asset Purchase Agreement and determined the document has incorporated the specific requirements of the PPP Guaranty as originally issued, and has disclosed these requirements to both the Seller(s) and the Buyer(s). NOTE: 7aQuestions@sba.gov nor 7aloanmods@sba.gov does not review purchase agreements.*
- 2. Confirmation that Lender has completed a third party validation for the new EIN#s belonging to the new entity owners and SSN#s belonging to 100% of the principals of the Borrower Entity, who is/are scheduled to be represented in ETran. A copy of the IRS EIN Assignment Letter is required to be provided as may be applicable.*
- 3. Submit all necessary information needed for SBA to complete the Principal's screen(s) in ETran for each new principal. Confirm if the timing of the closing of the transaction would be occurring after the forgiveness period has passed for the PPP Loan.*

4. *Lender is reminded that they are responsible for the review of any /all documentation related to this action.*

Once received and reviewed, SBA does not provide a forward commitment as may be related to any of the provisions of the PPP guaranty.

Please let us know if you have any further questions

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(7a) Loan Guaranty Processing Center

U.S. Small Business Administration

This may assist with the current loan for closing purposes.

If the seller has an outstanding PPP loan, before the 7(a) loan financing the change of ownership is disbursed, the seller's PPP loan must be repaid in full (through forgiveness or otherwise) or the seller must establish an escrow account with the PPP Lender in an amount equal to the outstanding PPP loan balance, plus any accrued interest. The 7(a) loan that finances the change of ownership cannot be used to finance the escrow account. Additionally, the business valuation used to support the sale price financed by the 7(a) loan must include the outstanding PPP loan on the seller's balance sheet. After the forgiveness process for the PPP loan (including any appeal of SBA's decision) is completed, escrow proceeds must be disbursed first to repay any remaining PPP loan balance, plus interest. Any remaining balance in the escrow account may be disbursed as agreed by the seller and buyer.

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