

- Includes the SBA Technical Updates from Sept 25, 2026

MEET THE QOE

A field guide to Quality of Earnings for SBA 7(a) lenders

\$3M+

The business price that triggers
a QoE on most acquisitions

1.25x

The new minimum coverage
for a first time buyer

Oct 1

The date the new rules
took effect in 2026

WHAT CHANGED IN THE LATEST UPDATE



Aug 14, 2026

SBA issued SOP 50 10 8.1. Its new Appendix 15 set the \$3M QoE rule.



Sept 25, 2026

SBA released Technical Updates in Information Notice 5000-882227.



Oct 1, 2026

The new rules apply to every application SBA receives from this date forward.

TOPIC	AUGUST TEXT	AFTER SEPT 25
Who can order the QoE	Only the lender	Lender, or the buyer if the lender's qualified vendor reviews and accepts it
Seller ordered QoE	Doesn't count	Still doesn't count
7(a) Small and Express for purchases	Not allowed	Allowed when the purchase price is \$350K or less
Lender's own valuation	Not allowed	Allowed at \$350K or less when buyer and seller are unrelated
Special use property	10 year term on the business portion	25 years on the whole loan when real estate is 85% or more of value
Turnaround deals	Had to meet 1.25x on past earnings	Can be underwritten as a start up when the seller's operations do not continue

STILL THE SAME

The \$3M threshold, the exemptions for Owner Buyouts and ESOPs, and the rule that QoE earnings drive the coverage test all stayed the same.

WHAT A QOE IS AND WHAT IT ISN'T

A QoE is an independent review that rebuilds a company's earnings and cash flow from scratch. It's different from both an audit and a valuation.

AUDIT

Are the statements fair under GAAP?

It gives an opinion on the accounting, but it says nothing about next year.

VALUATION

What is the business worth?

SBA requires one on every change of ownership, and it relies on the earnings it receives.

QUALITY OF EARNINGS

Will this profit still be here next year to repay the loan?

It tests whether the earnings are real and likely to repeat.

What it does

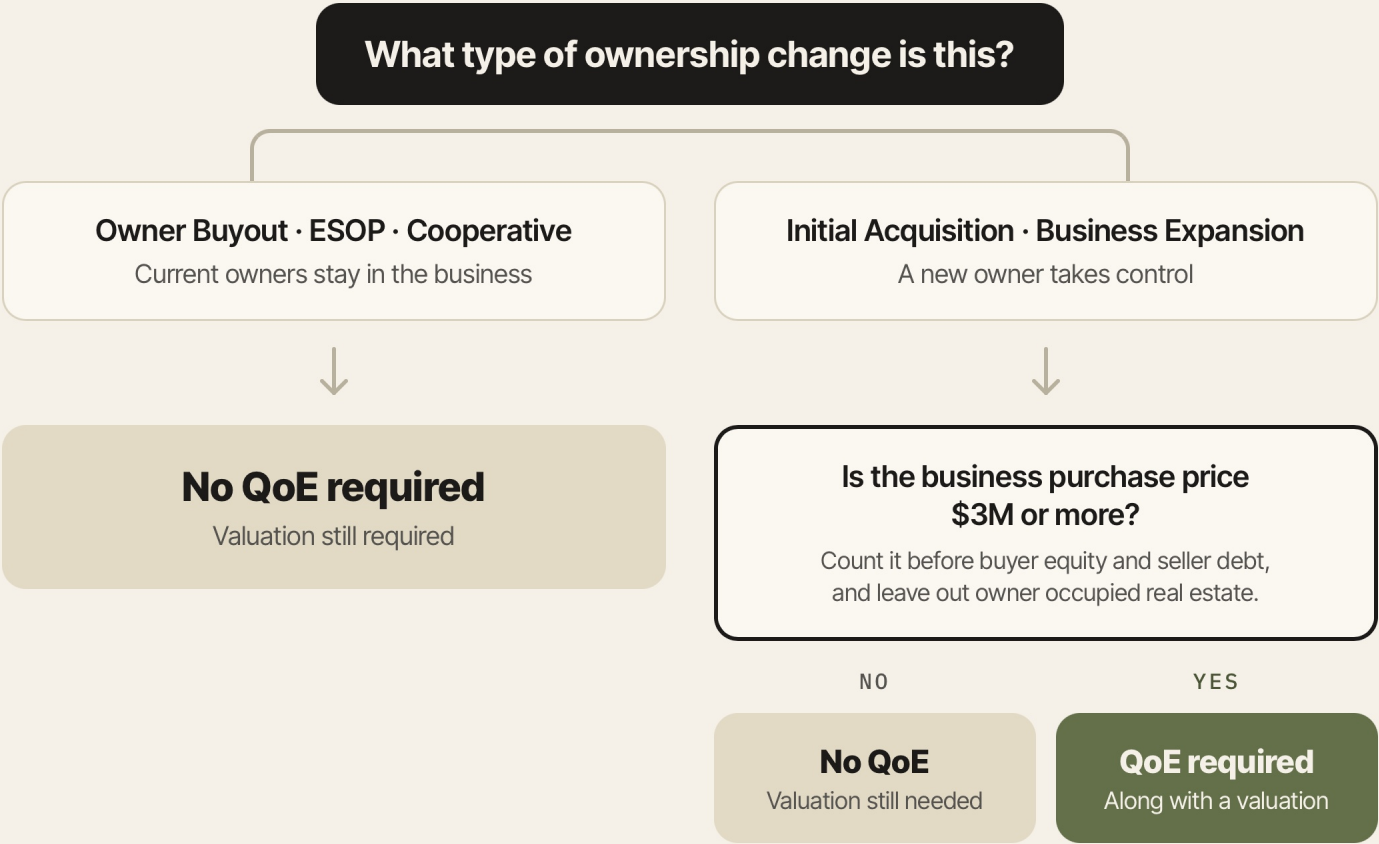
- ✓ Rebuilds the numbers from the general ledger
- ✓ Traces every adjustment to a source document
- ✓ Looks at revenue and margin month by month
- ✓ Proves reported earnings turned into cash
- ✓ Leaves a written record the lender can defend

What it doesn't do

- ✗ Give an audit opinion or assurance
- ✗ Replace the required appraisal
- ✗ Guarantee future performance
- ✗ Serve as a tax return review

The appraisal tells you what multiple to pay. The QoE tells you what number to multiply it by.

DOES YOUR DEAL NEED A QOE?



CATEGORY	MIN. COVERAGE	EQUITY	QOE AT \$3M+
Initial Acquisition	1.25x	10%, cannot be reduced	Required
Business Expansion	1.15x	10%, can be reduced	Required
Owner Buyout	1.25x	10%, can be reduced	Not required
ESOP and Cooperative	1.25x	None if the ESOP buys 51%+	Not required

Coverage is based on the last fiscal year or the average of the last two. Projections can't be used to meet the minimum.

WHAT A QOE ACTUALLY REVIEWS

The scope can change from deal to deal, but one rule never changes. Every adjustment needs independent support.



Earnings

Rebuilds profit and tests each add back



Cash proof

Matches revenue and expenses to bank deposits



Revenue and margin

Broken out by month, customer and product



Balance sheet

Checks reserves and any hidden debt



Working capital

Tracks 12 to 24 months and sets the target



Tax

Reviews state tax exposure and structure

Problems the financials often hide

1

Weak add backs

"One time" costs that show up in all three years

2

Revenue that won't repeat

One big contract or a timing quirk that made sales look steady

3

Concentration risk

One customer brings in 40% of gross profit

4

Cash strain

Late vendor payments that hide a cash shortfall

5

Unbooked liabilities

Unpaid vacation, payroll taxes, sales tax or delayed repairs

DID THE PROFIT TURN INTO CASH?

SBA requires all three periods

FISCAL YEAR 1

FISCAL YEAR 2

TRAILING 12 MONTHS

1

Collect every bank record

Operating, payroll, savings and merchant accounts

2

Match bank activity to the P&L

Each month, adjusted for accruals

3

Separate non operating cash

Owner draws, asset purchases and loans

4

Build a monthly cash model

Shows the cash operations produced

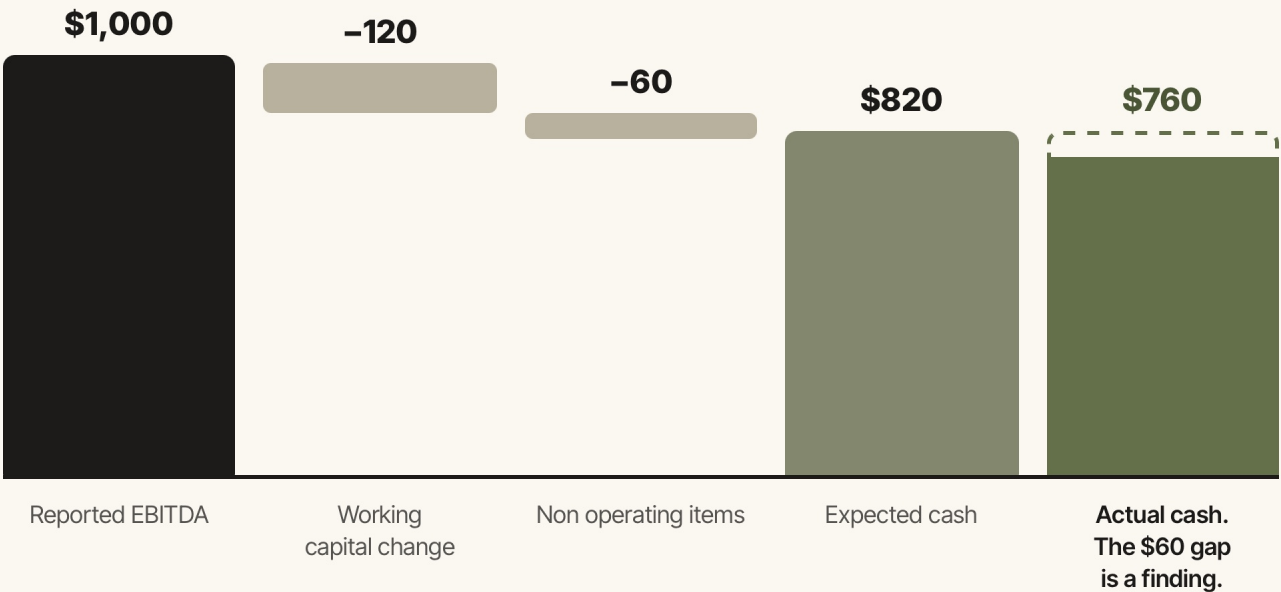
5

Bridge EBITDA to cash

Any unexplained gap becomes a finding

From EBITDA to cash, in \$ thousands

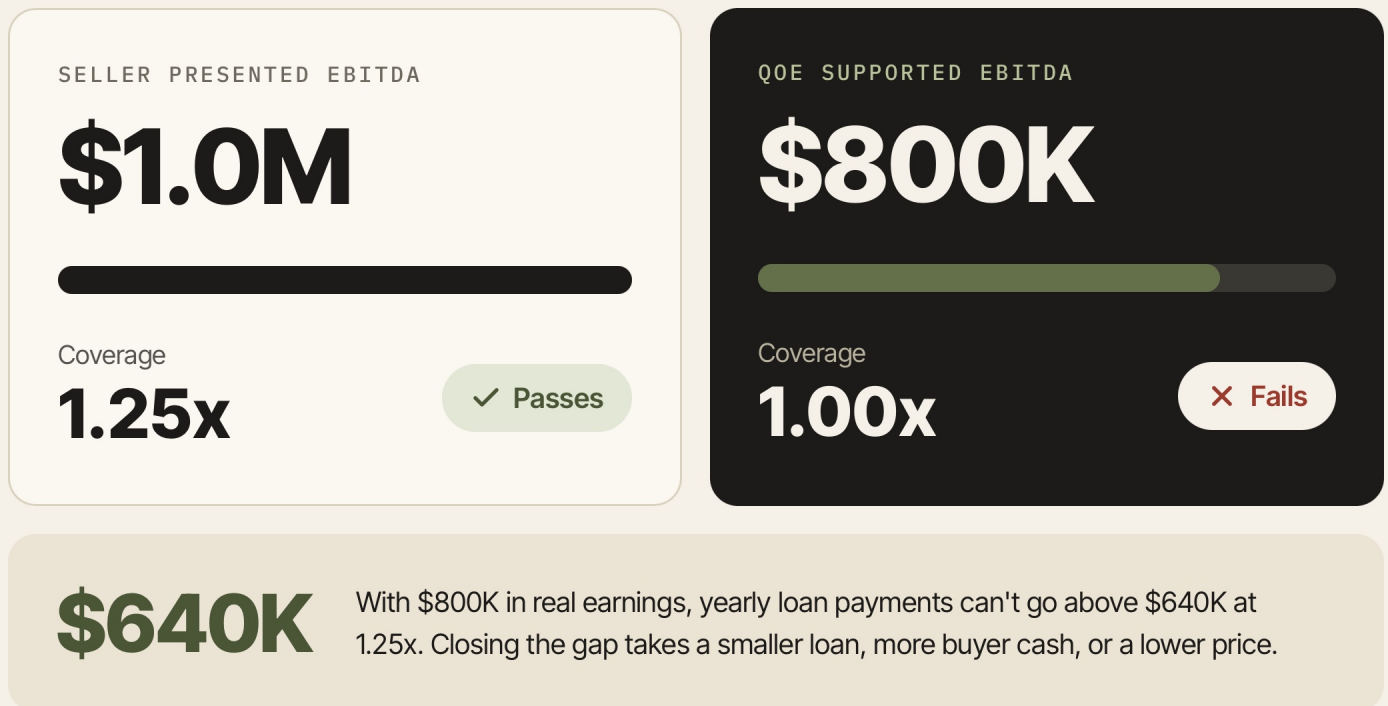
ILLUSTRATIVE



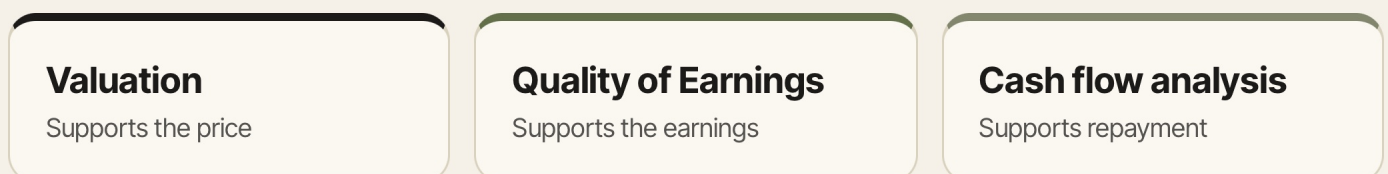
Tax returns don't tell the whole story. They're designed to lower taxes, often use cash accounting, and mix real costs with owner perks. A QoE compares its numbers to the tax return but never relies on the return alone.

WHY THE EARNINGS NUMBER MATTERS

Coverage, leverage and loan size all depend on EBITDA. Here's one borrower with \$800K a year in loan payments, tested against the new 1.25x minimum.



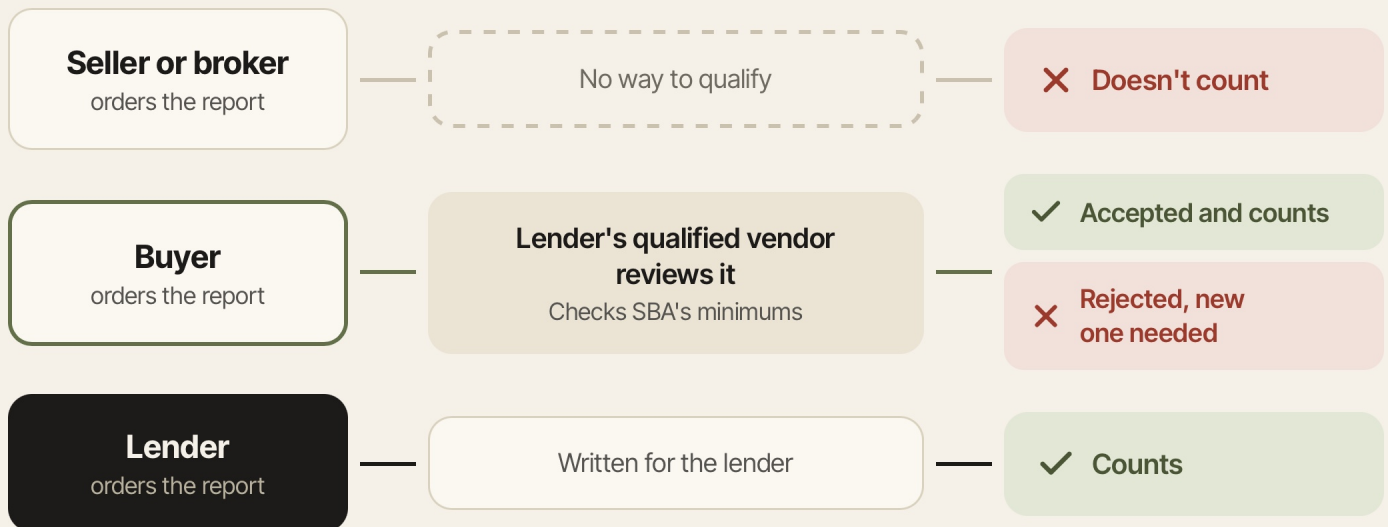
A strong credit file needs all three pieces



→ **Get the order right.** Finish the QoE first, then share the supported earnings with the appraiser before the valuation is final.

BUYERS CAN NOW ORDER THE QOE

A buyer's report can now count. The lender's qualified vendor has to review it, accept it, and confirm it meets SBA's minimum requirements.



Tips for buyers who order early

1**Ask your lender first**

Find out which firms their vendor usually accepts.

2**Meet the SBA minimum**

Include a full cash proof and a tie out to IRS transcripts.

3**Budget for a review fee**

Also plan for the chance the lender orders a second report.

4**Start early**

Starting sooner helps protect your closing date.

Either way, the lender must use the QoE earnings in the coverage test and keep the report in the credit file.

HOW TO CHOOSE A QOE PROVIDER

A valuation has to come from an accredited professional. A QoE doesn't require a license or set procedures, so the firm you choose is your only quality control.

1

Who will actually do the work?

Is it the person named on the cover or a junior staffer you never met?

2

How many lower middle market QoEs has the team closed?

Experience is what helps a team spot problems quickly.

3

How much of the firm's time is deal work?

A QoE done during tax season may not get full attention.

4

Can they walk you through one add back?

Ask them to trace it from the ledger entry to the source document and the final number.

5

Do they work for the seller, sponsor or broker?

A firm with an ongoing relationship on the other side has reasons to protect it.

Red flags in a report

- ✗ The EBITDA bridge does not tie to the trial balance
- ✗ "Per management" is treated as proof
- ✗ No cash proof, or only a partial one
- ✗ It never once says "we could not verify"

Signs of real diligence

- ✓ A senior person leads and is on your calls
- ✓ Every adjustment is traced to its support
- ✓ Findings show the impact on coverage and leverage
- ✓ The team will present to your credit committee

CHOOSE THE REVIEW YOUR DEAL NEEDS

CORE

SBA compliant valuation

\$5K

1 business day*

What is the
business worth?

- ✓ Normalized financials
- ✓ Private deal multiples
- ✓ Multiple valuation methods
- ✓ Value drivers quantified

SBA requires an independent valuation unless the price is \$350K or less and the parties are unrelated

SBA QoE

SBA compliant QoE

\$10K

Under 2.5 weeks*

How reliable are the
earnings and cash flow?

- ✓ Books, returns and IRS transcripts tied out
- ✓ Every adjustment supported
- ✓ SBA cash proof
- ✓ Revenue quality and concentration

Required for Initial Acquisitions and Business Expansions priced at \$3M or more, not counting owner occupied real estate

GO FURTHER

QoE plus detailed FDD

\$15K

Scoped at engagement

What are the broader
deal risks?

- ✓ Working capital peg support
- ✓ Net debt and debt like items
- ✓ Balance sheet review
- ✓ Deeper revenue and KPI schedules

For buyers and lenders who want more than the minimum

*Turnaround times assume all requested data is provided and Q&A is complete.

THREE TAKEAWAYS

1

A clean audit isn't a QoE, and neither is the SBA valuation.

2

Ask who does the work, and have them walk you through one add back.

3

Judge the price by the risk it removes, not by another firm's quote.

CHIEF

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