

July 17, 2018

The Honorable Steve Chabot
Chairman
Committee on Small Business
United States House of Representatives
2361 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Nydia Velázquez
Ranking Member
Committee on Small Business
United States House of Representatives
2361 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Chabot & Ranking Member Velázquez:

I write to express enthusiastic support for H.R. 6347, the “7(a) Real Estate Appraisal Harmonization Act,” introduced by Congressman Dwight Evans (PA-02), the Ranking Member of the Subcommittee on Economic Growth, Tax, and Capital Access of the House Committee on Small Business.

As you are both aware, the National Association of Government Guaranteed Lenders (NAGGL) is the national trade association that represents over 800 private-sector banks and financial partners who make 7(a) loans through the Small Business Administration’s (SBA) flagship loan program to tens of thousands of small businesses annually. In Fiscal Year 2017, financial institutions large and small provided about \$25.4 billion in approvals to approximately 62,430 small businesses nationwide through the SBA 7(a) program, creating or retaining an estimated 650,000 jobs just last year. At no cost to the taxpayer, the 7(a) loan program is an example of a public-private partnership that truly works.

Currently, the Small Business Act mandates that for any 7(a) loan over \$250,000 that will be secured by commercial real property, the SBA must require that a lender obtain an appraisal of such property by a State licensed or certified appraiser. The statute also states that such an appraisal *may* be required when the loan is \$250,000 or less if a formal appraisal is necessary to evaluate creditworthiness. Until recently, this \$250,000 threshold matched the standard established in 1994 by the federal regulators (Federal Reserve System, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency) for commercial real estate transactions. It is important to note, however, that for any SBA 7(a) loan which is secured by commercial real property, the provision in the Small Business Act takes precedence over the federal regulators’ rules on appraisal requirements and is the absolute authority on the threshold appraisal amount required for any such loan. Therefore, none of the exemptions in the federal regulators’ rules apply to such SBA 7(a) loans.

On April 9, 2018, the federal regulators released a joint final rule that raised their appraisal threshold from \$250,000 to \$500,000. Part of the rationale for proposing the change was the recognition that commercial property values have increased since the current threshold was established in 1994 and financial institutions were being required to get formal appraisals on a larger proportion of transactions than when the standard was originally set. Based on comments the regulators received from industry stakeholders, they determined that the increase in the number of appraisals required may contribute to unnecessary increased burdens on financial institutions. While this welcomed change went into effect immediately for conventional loans, 7(a) loans continued to be subject to the \$250,000 appraisal threshold amount mandated by the Small Business Act for any 7(a) loans which are secured by commercial real property.

H.R. 6347 amends the Small Business Act to allow SBA to use the federal regulators’ appraisal threshold amount for commercial real estate transactions as the SBA threshold amount for requiring appraisals for any 7(a) loan secured by commercial real property. By proposing that the SBA appraisal threshold amount match the federal regulators’ threshold amount for commercial real estate transactions, or the lesser amount of the three federal regulators’ thresholds for commercial real estate transactions if there is a discrepancy between them, as opposed to specifying a specific dollar threshold, H.R. 6347 makes the Small Business Act much more durable and avoids the need for future

statutory changes if any of the regulators change their appraisal threshold amount for commercial real estate transactions. It is critical to understand that H.R. 6347 does not tie the SBA 7(a) loan appraisal threshold requirement to the federal regulators' appraisal rules, except that it utilizes the threshold appraisal amount established for commercial real estate transactions. This is consistent with current policy which requires SBA to comply with the appraisal threshold mandated by the Small Business Act without regard to the regulators' appraisal rules.

Updating the Small Business Act statutory appraisal threshold is critical to both SBA lending partners *and* small business borrowers. First, the majority of SBA 7(a) lenders also make loans conventionally and are federally regulated, creating confusion and onerous compliance challenges as lenders are subject to two distinct standards. However, much more important is the costly challenge the discrepancy between the federal regulators' final rule and the Small Business Act creates for small business borrowers. Under current legislation, if a small business borrower is seeking a 7(a) loan over \$250,000 that will be secured by commercial real estate, the borrower must bear the cost of a formal appraisal, and may be subject to other less expensive fees for property valuations for loans below that amount. If the proposed legislation is enacted, appraisal costs passed on to borrowers will be greatly reduced since formal appraisals will only be mandatory on loans over \$500,000, or above any threshold established by the regulators in the future.

NAGGL has been at the forefront of this discussion with Congress since July 2017 when the federal regulators first published a joint proposed rule to begin the dialogue with stakeholders, raising concerns that when the rule would eventually be finalized, it would be necessary to amend the Small Business Act as well. On behalf of over 800 SBA lending partners and tens of thousands of small businesses across the country, I applaud Congressman Evans' leadership on this issue and his common-sense solution to a problem that will remove costly barriers to small business borrowers accessing the 7(a) loan program and remove challenges for SBA lender partners. I also want to thank both of you, as Chairman and Ranking Member of the House Committee on Small Business, for holding a business meeting this week to markup this critical legislation and help move the process forward expeditiously.

As the largest national trade association of SBA lending partners, NAGGL strongly urges all Members of the House Committee on Small Business to support H.R. 6347, the "7(a) Real Estate Appraisal Harmonization Act," as introduced by Congressman Evans.

Sincerely,



Anthony R. Wilkinson
President & CEO, National Association of Government Guaranteed Lenders (NAGGL)