



SBA Policy Notice

TO: All SBA Employees, 7(a) Lenders, and CDCs

CONTROL NO.: 5000-19007

SUBJECT: Changes to 7(a) and 504 Loan Program
Appraisal Requirements

EFFECTIVE: March 26, 2019

On December 21, 2018, the 7(a) Real Estate Appraisal Harmonization Act (“Harmonization Act”) amended Section 7(a)(29) of the Small Business Act, and the Small Business Access to Capital and Efficiency Act (“ACE Act”) amended Section 502(3)(E)(ii) of the Small Business Investment Act. For the 7(a) Program, the Harmonization Act requires an appraisal for an SBA 7(a) loan that is in an amount greater than the Federal Banking Regulator appraisal threshold (the “Threshold”), and states that SBA or the Lender may require an appraisal for an SBA 7(a) loan in an amount equal to or less than the Threshold, if such appraisal is necessary for appropriate evaluation of creditworthiness. For the 504 Program, the ACE Act requires an appraisal for an SBA 504 loan if the estimated value of the Project Property is more than the Threshold, and states that SBA or the CDC may require an appraisal for an SBA 504 loan if the estimated value of the Project Property is equal to or less than the Threshold, if such an appraisal is necessary for an appropriate evaluation of creditworthiness.¹

On April 9, 2018, the FDIC, the OCC, and the Fed (collectively, the “Federal Banking Regulators”) published a joint Final Rule increasing the Threshold from \$250,000 to \$500,000. (<https://www.govinfo.gov/content/pkg/FR-2018-04-09/pdf/2018-06960.pdf>) Additionally, each Federal Banking Regulator requires that for commercial real estate transactions of \$500,000 or less, an appropriate evaluation of real property collateral that is consistent with safe and sound banking practices must be obtained.

Based on feedback received from SBA Lenders, SBA is providing interim guidance to address lender questions on appraisal requirements while SBA continues to review these issues. **The interim guidance set forth in this Notice is effective immediately and will control over any conflicting provisions in Standard Operating Procedures (SOP) 50 10 5(J), Lender and Development Company Loan Programs (currently effective), or SOP 50 10 5(K), Lender and Development Company Loan Programs (effective April 1, 2019).** SBA will incorporate permanent guidance in the next SOP update after concluding its review.

¹ Both Acts define the Federal Banking Regulator appraisal threshold to mean the lesser of the threshold amounts set by the Board of Governors of the Federal Reserve System (“Fed”), the Comptroller of the Currency (“OCC”), and the Federal Deposit Insurance Corporation (“FDIC”) for when a federally related transaction that is a commercial real estate transaction requires an appraisal prepared by a State licensed or certified appraiser.

7(a) Loan Program

Revised guidance for SOP 50 10 5(J) and (K), Subpart B, Ch. 4, Para. II.B.

Remove paragraph 4.c. and add a new paragraph 6 that reads:

“6. For all loans that are collateralized by commercial real estate, Lenders must comply with the requirements for real estate appraisals or evaluations set forth in Paragraph IV below.”

Revised guidance for SOP 50 10 5(J) and (K), Subpart B, Ch. 4, Paras. IV.A.1.-6.

“1. For all loans greater than \$500,000 secured by commercial real property, all Lenders must obtain an appraisal by a State licensed or certified appraiser. Appraisals must be in compliance with the Uniform Standards of Professional Appraisal Practice (USPAP). Additionally, SBA requires that completed appraisals be dated within 12 months of the application for guaranty.

For federally-regulated Lenders, no exemption is granted under the Interagency Appraisal and Evaluation Guidelines dated December 2, 2010 for Transactions Insured or Guaranteed by a U.S. Government Agency.

(www.fdic.gov/news/news/financial/2010/fil10082a.pdf).

2. For all loans \$500,000 or less secured by commercial real property:
 - a. If the loan finances a transaction involving parties with a close relationship (for example, transactions between existing owners or family members), or if SBA or the Lender otherwise concludes that an appraisal is necessary to appropriately evaluate creditworthiness, the Lender must obtain an appraisal as described in paragraph A.1. above.
 - b. If an appraisal is not required under the preceding paragraph, all Lenders must obtain an appropriate evaluation of the commercial real estate securing the loan that is consistent with safe and sound banking practices. Evaluations are not required to be performed in accordance with USPAP or by State licensed or certified appraisers but should be consistent with the [Interagency Appraisal and Evaluation Guidelines](#) and the [Interagency Advisory on the Use of Evaluations in Real Estate-Related Financial Transactions](#), issued by the Federal Banking Regulators.”

Paragraphs 3 and 4 are removed and reserved. Paragraph 5 is unchanged.

Revise the first sentence in paragraph 6 to read as follows:

“6. In order for the appraiser to identify the scope of work appropriately, the appraisal must identify the Lender as the client and/or an intended user of the appraisal, as those terms are defined in USPAP, except that federally-regulated Lenders may follow their primary regulator’s FIRREA requirements to the extent they permit otherwise.”

Revised guidance for SOP 50 10 5(J) and (K), Subpart B, Ch. 4, Para. IV.D.

In the opening sentence, replace “\$250,000” with “\$500,000.”

Revised guidance for SOP 50 10 5(J) and (K), Subpart B, Ch. 7, Para. IV.E.

“E. The Lender must obtain all required collateral and must meet all other required conditions before or at the time of loan disbursement, including obtaining valid and enforceable security interests in any loan collateral. These conditions include requirements identified in the credit memorandum, such as cash/equity injections, standby agreements, appraisals or evaluations in accordance with Chapter 4 of this Subpart, and business licenses.”

Revised guidance for SOP 50 10 5(J) and (K), Subpart B, Ch. 7, Para. IV.I.2.

“2. The Lender must obtain all required collateral and must meet all other required conditions before loan disbursement, including obtaining valid and enforceable security interests in any loan collateral. These conditions include requirements identified in the loan write-up, such as standby agreements, appraisals or evaluations in accordance with Chapter 4 of this Subpart, business licenses, and cash/equity injections.”

504 Loan Program

Revised guidance for SOP 50 10 5(J) and (K), Subpart C, Ch. 3, Para. II.A.1.

“1. Appraisals and Evaluations:

- a. SBA requires a real estate appraisal if the estimated value of the Project Property is greater than \$500,000.
- b. If the estimated value of the Project Property is \$500,000 or less:
 - i. The CDC must obtain an appraisal under the following circumstances:
 - a) Equity in land owned for 2 years or more is being contributed as part of Borrower’s contribution;
 - b) The real estate is Third Party Lender’s OREO;
 - c) If the loan finances a transaction involving parties with a close relationship (for example, transactions between existing owners or family members);
 - d) The seller of the property is carrying back a loan that is part of the Borrower’s contribution; or
 - e) If SBA or the CDC otherwise concludes that an appraisal is necessary to appropriately evaluate creditworthiness.
 - ii. If an appraisal is not required under the preceding paragraphs, the CDC must obtain an appropriate evaluation of the Project Property being acquired with the loan proceeds that is consistent with safe and sound banking practices. Evaluations are not required to be performed in accordance with USPAP or by a State licensed or certified appraiser but should be consistent with the [Interagency Appraisal and Evaluation Guidelines](#) and the [Interagency Advisory on the Use of Evaluations in Real Estate-Related Financial Transactions](#), issued by the Federal Banking Regulators.”

Revised guidance for SOP 50 10 5(J) and (K), Subpart C, Ch. 3, Para. II.A.10.

Replace 10.c. with “The Project will finance a transaction involving parties with a close relationship (for example, transactions between existing owners or family members).”

If you have any questions regarding this notice, please contact your local SBA field office or the service centers. To locate your local office or service center, please go to <https://www.sba.gov/about-sba/sba-locations>.

Linda E. McMahon
Administrator