



SBA Procedural Notice

TO: All SBA Employees and Certified Development Companies

CONTROL NO.: 5000-835230

SUBJECT: Guidance on 504 Appraisal Review to Update SOP 50 10 6 and Authorizing CDC Closing Counsel to Confirm Franchise Closing Documents Conform with SBA Franchise Procedures and the SBA Franchise Directory

EFFECTIVE: July 29, 2022

The purpose of this Notice is to revise the procedures set forth in SOP 50 10 6 relating to commercial real estate appraisals that CDCs must submit to the Sacramento Loan Processing Center (SLPC) for approval and to authorize CDC Closing Counsel to review and confirm franchise closing documents are executed properly and conform with SBA franchise procedures and the SBA Franchise Directory. These revisions and guidance are effective as of the Effective Date of this Notice.

I. Changes to 504 Loan Program Commercial Real Estate Pre-Closing Appraisal Procedures

Under current SBA procedures, if the appraisal that CDCs must submit for approval to the SLPC is less than 95% of the estimated value of the commercial real estate, the debenture must be reduced or the CDC must secure additional collateral or additional investment from the Borrower and/or guarantors. SBA is revising SOP 50 10 6, Part 2, Section C, Chapter 1, Paragraph E.2.b.i.b)i) (page 488) to change the requirement from 95% to 90% of the estimated value of the commercial real estate:

- i) An appraisal must be submitted and approved by the SLPC (except on Delegated loans) prior to closing. If the appraisal comes in at less than **90%** of the estimated value, the debenture must be reduced or, if available, the CDC must secure additional collateral or additional investment from the Borrower and/or guarantors that will be added to the required Borrower's Contribution and will be sufficient to address the gap in value. If additional collateral or additional investment is not available, but the applicant demonstrates strong, consistent cash flow sufficient to support the debt, then the SLPC can approve the appraisal and the CDC may close the loan.

II. Authorizing CDC Closing Counsel to Confirm Franchise Closing Documents Conform with SBA Franchise Procedures and the SBA Franchise Directory

Under current SBA franchise procedures, CDCs must either submit the executed franchise agreement, the executed SBA Form 2462 or SBA Negotiated Addendum (if applicable), and any other document the franchisor requires the franchisee to sign (collectively, “Franchise Closing Documents”) to and receive approval from the SLPC prior to submitting the closing package for debenture funding (non-delegated loans) or submit the Franchise Closing Documents to and receive approval from SBA District Counsel prior to submitting the closing package for debenture funding (delegated loans). SBA is revising these procedures to authorize CDC Closing Counsel to review and certify Franchise Closing Documents are executed properly and conform with SBA franchise procedures set forth in SOP 50 10 6, Part 2, Section A, Chapter 1, Paragraph D and the SBA Franchise Directory. CDC Closing Counsel will certify to the legal sufficiency of this Franchise Closing Documents review using the revised Opinion of CDC Counsel and SBA Form 2286 (504 Debenture Closing Checklist) when submitting the closing package to local District Counsel.

Accordingly, the procedural guidance at SOP 50 10 6 Part 2, Section A, Chapter 1, Paragraph D.6.g.ii.b) ii) is revised as follows:

“ii. For 504 loans, CDC Closing Counsel must confirm the Applicant’s brand is on the Directory and include documentation supporting this confirmation with the closing package for debenture funding.”

Also, the procedural guidance at SOP 50 10 6 Part 2, Section A, Chapter 1, Paragraph D.6.g.iii. b) is revised as follows:

“b) For delegated loans, the delegated SBA Lender must document in its file that all of the Applicant’s brands are eligible for SBA financial assistance and those that meet the FTC definition of a franchise that are critical to the Applicant’s business operation are on the Directory.

Delegated Lenders will be required to submit this supporting documentation to SBA with any guaranty purchase request and SBA will review this documentation when conducting lender oversight activities for 7(a) loans. PCLP CDCs must submit this supporting documentation to CDC Closing Counsel for approval and include documentation supporting this confirmation with the closing package for debenture funding.

Finally, the procedural guidance at SOP 50 10 6 Part 2, Section A, Chapter 1, Paragraph D.6.g.vi.b) is revised as follows:

“b. For all 504 loans, CDC Closing Counsel must review the franchise closing documents and confirm they are properly executed and conform with SBA Loan Program requirements and the SBA Franchise Directory prior to submitting the closing package for debenture funding.”

Questions

Questions concerning this Notice may be directed to the Lender Relations Specialist in the [local SBA Field Office](#).

Dianna L. Seaborn
Director
Office of Financial Assistance