

Appraisal Standards For SBA 504 Loans



Estimated Value of Property:

- SBA requires an appraisal on the real estate if the estimated value of the project property is greater than \$250,000.
- If the estimated value of the project property is \$250,000 or less an appraisal may be required for the evaluation of creditworthiness. (For example, when a property is being acquired from a family member and there is a potential conflict of interest.)

Appraiser Requirements

- The appraiser must be independent with no appearance of a conflict of interest. (No financial or other interest in the property or the transaction.)
- The appraiser must be either State-Licensed or State-Certified for project valued \$1,000,000 and under. For projects valued over \$1,000,000, the appraiser must be State-Certified.

Appraisal Report Requirements

- The appraisal report must be either self-contained or a summary report.
- Restricted use appraisal reports are not acceptable.

Ordering a New Appraisal

- The report must identify SBA as the client and/or as an intended user as those terms are defined by USPAP. As of 6/1/2012, SBA removed the requirement that both the CDC and SBA be identified on the appraisal report.
- It is acceptable for the Third Party Lender to be the client and SBA as intended users.
- SCKEDD may not use an appraisal prepared for the applicant.
- The project property physical address stated in the appraisal must be consistent with any environmental investigation reports.

New Construction or Substantial Renovation

- The appraisal report must be prepared showing the market value of the property upon completion of construction or major renovations.
- Upon completion of the construction or major renovations, a certification from the appraiser is required, certifying that the construction or renovations were completed according to plans and specifications.

Purchase of an Existing Building

- The appraisal report should estimate the market value on an “as-is” basis.
- Any other type of value used by the appraiser requires an explanation by the appraiser as to why the “as-is” basis was not used.

Going Concern Value

- If the appraisal report includes either a “going-concern” or “business value,” then the appraiser must allocate separate values to the land, building, equipment and business/going-concern/goodwill/”blue-sky” value.
- SBA will deduct the business/going-concern/goodwill/”blue-sky” value from the total valuation.

Appraisal Standards – continued

Limited/Special Purpose Property

- When the collateral for the Project is a special purpose property, the appraiser must be experienced in the particular industry.
- See SBA Standard Operating Procedures (SOP) 50 10 5(E) page 269 for a list of limited or special purpose properties.

Collateral Value

- If the market value in the appraisal report is 90% or more of the estimated value, SCKEDD may close the loan. (SCKEDD must include a written explanation in the loan file if the appraisal is less than the estimated value.)
- If the market value in the appraisal report is less than 90% of the estimated value, then SCKEDD has the following options:
 - Take additional collateral to cover the shortfall;
 - Reduce the debenture amount; and/or
 - Require an increased borrower contribution to cover the shortfall.

Non-commercial Real Estate or Real Estate Securing a Personal Guaranty

- SBA has no appraisal requirements for this type of collateral.

Appraisal Date

- SBA will not accept an appraisal report that is older than one year from the date of the 504 loan application.

Appraisal Submission

- Appraisal must be submitted with the 504 loan application when:
 - Equity in land owned for 2 years or more is being contributed as part of the borrower contribution;
 - The real estate is Third Party Lender OREO; and/or
 - The project is not arms-length, e.g., a transaction between family members.

South Central Kansas Economic Development District, Inc.
9730 East 50th Street North, Bel Aire, KS 67226
(316) 262-7035

For more information, contact:

Christie Henry, Program Manager – christie@sckedd.org
or Julie Baker, Development Coordinator – jbaker@sckedd.org

Visit our website at www.sckedd.org.