

504 Appraisal Standards



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, a property is being acquired from a family member and/or 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 with the following exceptions: when the Project Property's estimated value is over \$1 million, the appraiser must be State-Certified.

Appraisal Report Requirements

- The appraisal report must be prepared in compliance with the Uniform Standards of Professional Appraisal Practices (USPAP)
- The appraisal report must be dated no more than 12 months prior to the date of application to SBA.
- The appraisal report must be either self-contained or a summary report.
- Restricted use appraisal reports are not acceptable.
- In most cases, a minimum of two approaches are required for SBA acceptance of the appraisal report.

Ordering a New Appraisal

- In order for the appraiser to identify the scope of work appropriately, the appraisal must identify SBA as the client or an intended user of the appraisal.
- It is acceptable to SBA if the appraisal identifies the Third Party Lender as the client and SBA as intended user.
- SCKEDD/SBA will not accept an appraisal prepared for the applicant.
- The Project Property's physical address stated in the appraisal must be consistent with any environmental investigation report(s).

New Construction or Substantial Renovation of an Existing Building

- The appraisal report must be prepared showing the market value of the property upon completion of construction or major renovations.

Appraisal Standards – continued

- Upon completion of the construction or major renovations, SCKEDD must obtain a statement from the appraiser, general contractor, project architect, or construction management firm that the building was built with only minor deviations (if any) from the plans and specifications upon which the original estimate of value was based.

(“Substantial” means rehabilitation expenses of more than one-third of the purchase price or fair market value at the time of the application)

Purchase of an Existing Building (without construction)

- 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 engagement letter asks the appraiser for a business enterprise or going-concern value, the appraiser must allocate separate values to the individual components of the transaction including, land, building, equipment and business (including intangible assets).

Limited or Special Purpose Property

- When the collateral for the Project is a special or limited purpose property, the appraiser must be experienced in the particular industry.
- See SBA Standard Operating Procedures - **SOP 50 10 5(J)** page 259-260 for a list of limited or special purpose properties.

Collateral Value

- If the market value in the appraisal report is **95%** 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 Standards – continued

Equipment Appraisal

- SBA requires that an equipment appraisal be obtained when used equipment is part of the Project and is either being purchased from someone other than an equipment dealer, or being refinanced.
- The equipment appraisal needs to be a written document from a person that is qualified to provide a valuation, is independent of the transaction, and has performed an on-site inspection of the equipment.
- The appraisal must be dated no more than 12 months prior to the date of the application.

Appraisal Submission

- The appraisal report must be submitted with the SBA 504 Loan application when:
 - Equity in land owed for 2 years or more is being contributed as part of the Borrower's contribution; or
 - The real estate is Third Party Lender OREO; or
 - The project is not arms-length, e.g., a transaction between family members; or
 - The seller of the property is carrying back a loan that is part of the Borrower's contribution.

For More Information - Contact our SBA 504 Loan Team:

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