

## 504 Environmental Guidelines



The U.S. Small Business Administration (SBA) requires an Environmental Investigation of all commercial property upon which a security interest such as a mortgage, deed of trust, leasehold mortgage or leasehold deed of trust is offered as security for a loan or debenture. The type and depth of Environmental Investigation to be performed varies with the risk of contamination. SBA approval of the Environment Investigation is required before the 504 loan may be disbursed.

All 504 loan application require the completion of an SBA Environmental Questionnaire. The Environmental Questionnaire must be completed within one year of submission to SBA.

In addition to the Environmental Questionnaire the following Environmental Investigation(s) may be required based on the size of the loan, type of industry<sup>1</sup> and/or the results of the investigation:

### Records Search and Risk Assessment (RSRA):

- Required for all loans greater than \$150,000.
- If RSRA concludes that the property is at “low risk” for contamination, SCKEDD will submit the results of the Environment Investigation to SBA with a recommendation of approval and seek SBA’s concurrence.
- If RSRA concludes that the property is at “elevated” or “high risk”, a TSR or Phase I must be obtained.
- RSRA must be completed within one year of submission to SBA.

### Transaction Screen Result (TSR)\*:

- If TSR concludes that the property is at “low risk” for contamination, SCKEDD will submit the results of the Environment Investigation to SBA with a recommendation of approval and seek SBA’s concurrence.
- If RSRA concludes that the property is at “elevated” or “high risk”, a Phase I must be obtained.
- RSRA must be completed within one year of submission to SBA.

### Phase I Environmental Site Assessment (ESA)\*:

- If Phase I ESA concludes that no further investigation is warranted, SCKEDD will submit the results of the Environment Investigation to SBA with recommendations for approval and seek SBA’s concurrence.
- If Phase I ESA concludes that further investigation is warranted (typically a Phase II) SCKEDD must proceed as recommended by the Environmental Professional. In general, SBA will require compliance with all of an Environmental Professionals’ recommendations (including “housekeeping measures” such

as secondary containment, decommissioning monitoring well, sealing floor drains, etc.).

- Phase I must be completed within one year of the Acquisition Date – the date when the Borrower or Guarantor acquired title to the property.

Phase II Environmental Site Assessment (ESA)\*:

- If Phase II ESA concludes that no further investigation is warranted, SCKEDD will submit the results of the Environment Investigation to SBA with recommendations for approval and seek SBA’s concurrence.
- If Phase II ESA reveals Contamination, contact SCKEDD for additional requirements.
- The SOP does not specify a time frame for a Phase II ESA but it should be updated after remediation is completed, if applicable.

SCKEDD cannot close the 504 loan until it has completed the review for potential environment contamination required in SBA’s Standard Operating Procedures (SOP) 50 10 5 (“Environmental Investigation”) on each business real property site taken as collateral and sufficiently minimized the risk from any adverse environmental findings discovered in the Environmental Investigation, or otherwise, as required by SOP 50 10 5. Subpart C, Chapter 4 (Environmental Policies and Procedures) and applicable appendices.

If SBA determines from the Environment Investigation that there is potential environmental contamination, SCKEDD cannot forward the loan to the Debenture Sale until SBA is satisfied that the risk has been sufficiently minimized. Adverse environmental findings may lead to cancellation of the loan.

\* An Environmental Reliance Letter<sup>2</sup> including Proof of Insurance must accompany a TSR, Phase I ESA and Phase II ESA. The Reliance Letter is available on our website.

Visit [www.sckedd.org/loans](http://www.sckedd.org/loans) for more loan program details.

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SOP 50 10 5 (Standard Operating Procedures) - Link: <http://www.sba.gov/about-sba-services/7481>

<sup>1</sup> NAICS Codes of Environmentally Sensitive Industries – SOP 50 10 5, Appendix 4

<sup>2</sup> Environmental Reliance Letter – SOP 50 10 5, Appendix 3