



SBA Procedural Notice

TO: All SBA Employees, 7(a) Lenders, and Certified Development Companies

CONTROL NO.: 5000- 862692

SUBJECT: Extension and Rescission of Notices Previously Published and Procedural Updates to SOP 50 10 7.1 and SOP 50 55

EFFECTIVE: December 6, 2024

The purpose of this notice is to further extend temporary procedural guidance previously published via SBA Procedural Notice and to announce procedural updates to SOP 50 10 7.1, as of the effective date of this notice. This Procedural Notice supersedes any conflicts between this notice and the ones that are being extended.

Extension of Previously Published SBA Procedural Notices

The following SBA Procedural Notices are extended through 2 years from the effective date of this notice or the effective date of the next SOP 50 10 update, whichever is earlier:

Procedural Notice [5000-852522](#), published Dec. 6, 2023, Updates to SOP 50 10 7.1 (except as modified by this notice)

Procedural Notice [5000-855070](#), published March 5, 2024, Adoption of the Alternative Size Standard for SBA's 7(a) and 504 Loans Incorporating an Adjustment for Inflation

Procedural Notice [5000-856984](#), published April 30, 2024, 504 Program Updates to SOP 50 10 7.1 Removing Cap on Energy Public Policy Projects and Extensions on Debenture Beyond 48 Months

Procedural Notice [5000-856893](#), published May 2, 2024, Update to SOP 50 56 1 related to SBA Form 1081 CDC Character Determinations

Procedural Notice [5000-857477](#), published May 31, 2024, Updates to SOP 50 10 7.1 and SOP 50 45 3 Related to the Criminal Justice Final Rule

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EXPIRES: 12/1/25

SBA Form 1353.3 (4-93) MS Word Edition; previous editions obsolete

Must be accompanied by SBA Form 58

Procedural Notice [5000-858322](#), published June 24, 2024, 7(a) and 504 loans to Cooperatives and valuation requirements for 7(a) loans to ESOPs for changes of ownership

Procedural Notice [5000-857295](#), published Oct. 1, 2024, 504 Refinancing Revisions to SOP 50 10 7.1 that Incorporate Changes made by [89 FR 79734](#), 504 Debt Refinancing

Procedural Notices Rescinded

SBA Procedural Notice [5000-851789](#): Corrections to certain 504 Debt Refinancing without Expansion provisions relating to 504 projects with Eligible Business Expenses as described in SBA Policy Notice 5000-847732 and as set forth in SBA SOP 50 10 7.1 is rescinded except for the following: SOP 50 10 7.1, Section C, Chapter 1, paragraph C.10 is revised to indent subparagraphs C.10.m.iv through x and renumber as C.10.m.v. a through g.

SOP 50 10 7.1 Updates Affecting the 7(a) and 504 Loan Programs

Landlord reimbursements for tenant improvements

SBA is clearly stating the procedures that SBA Lenders must follow when a landlord makes a reimbursement to a Borrower/tenant as a result of tenant improvements.

SOP 50 10 7.1, Section A, Chapter 3, Para. C.2. (page 37) is revised to add a new subparagraph e. as follows:

- e. If the loan proceeds will finance new improvements made by the Borrower/tenant on a space that the Borrower is leasing and where there is a possibility of landlord reimbursements for such tenant improvements, the SBA Lender must apply the same policies that it uses for its similarly-sized, non-SBA guaranteed loans for any leftover funds or landlord reimbursements to the Borrower; however, at a minimum, the SBA Lender should take commercially reasonable measures to ensure the proceeds are used for business purposes.

Signature of a non-owner spouse on the owner's personal financial statement

SBA is making this update to align policy with the fact that beginning with SOP 50 10 7, effective August 1, 2023, SBA no longer has a personal resources test, which means SBA no longer needs to require non-owner spouses or Supplemental Guarantors to disclose their personal financial resources, except to the extent that such personal financial resources are co-owned with the borrowing spouse.

SOP 50 10 7.1, Section A, Chapter 5, Para. A.1.e. (page 71) is revised as follows:

- e. The SBA Lender must obtain a personal financial statement from all proposed guarantors, except for:
 - i. When the SBA Lender credit scores owners/guarantors for 7(a) loans or for 504 projects \$500,000 or less.

ii. In all cases, for both 7(a) and 504 loans of any size, SBA does not require spouses with no degree of ownership in the Borrower to sign a personal financial statement or to disclose assets, except to the extent that any assets are co-owned with the borrowing spouse.

iii. Supplemental Guarantors.

SOP 50 10 7.1, Section B, Chapter 1, Para. D.1.d. (Standard 7(a) page 120); Chapter 3, Para. D.1.c.iii. (CAPLines page 173); Chapter 4, Para. B.7.a.viii. (Export Working Capital Program page 227); and Chapter 4, Para. C.5.a.iii.d) (International Trade page 264) are revised as follows:

Owner Financial Statement (business or personal, as applicable) signed and dated within 120 days of submission to SBA, for all owners of 20% or more, and proposed guarantors, except [Supplemental Guarantors](#). Lenders may use [SBA Form 413](#) or their own equivalent form. **If the Lender requires owner financial statements for its similarly-sized, non-SBA guaranteed loans, these statements must be submitted to LGPC as part of the application.** If the Lender uses a credit score to evaluate the owner financials, then the Lender does not need to obtain owner financial statements for either delegated or non-delegated loans.

IRS Tax Transcripts

For both 7(a) and 504 loans, SBA is updating its procedures on verification of financial information via IRS tax transcripts to provide some relief for obtaining seller tax transcripts on small projects for changes of ownership.

When there is an acquisition of a division or a segment of an existing business, other forms of verification from third-party sources, such as sales tax payment records, data aggregation services, credit reporting services, etc., may be used in lieu of the IRS tax transcript data.

Additionally, for changes of ownership where the 7(a) loan is \$500,000 or less, or where the 504 project is \$500,000 or less, the Lender or CDC may verify the seller's business tax returns or a selling sole proprietor's Schedule C by applying the same policies and procedures that the Lender or CDC uses for its similarly-sized, non-SBA guaranteed loans. CDCs that do not have non-SBA guaranteed loans should follow their loan policies that were reviewed by SBA.

SOP 50 10 7.1, Section A, Chapter 5, Para. B, 4. (page 72) is revised as follows:

4. For a change of ownership, the SBA Lender must verify the seller's financial data, including a selling sole proprietor's Schedule C, except as noted below.
 - a. When there is an acquisition of a division or a segment of an existing business, the SBA Lender may use alternative forms of verification from third-party sources, such as sales tax payment records, data aggregation services, credit reporting services, etc., to verify the seller's financial data.

b. The requirement to verify seller's financial data does not apply to 7(a) loans \$500,000 or less or to 504 projects \$500,000 or less; instead, for these loans, Lenders and CDCs must use the same policies and procedures to verify seller financial data that they use on their similarly-sized, non-SBA guaranteed loans. The SBA Lender must discuss in its credit memorandum how the SBA Lender verified business revenue.

Participation in projects that obtain C-PACE financing

SBA is clarifying that both 7(a) and 504 loans may be used in conjunction with commercial property assessed clean energy ([C-PACE](#)) financing. When a project has C-PACE financing, the C-PACE capital is repaid through a tax assessment. C-PACE is a tool that can finance energy efficiency and renewable energy improvements on commercial property. C-PACE is not a federal program. Once C-PACE financing is in place, the payments are typically treated like other real property assessments and taxes. This includes a first priority interest in favor of the taxing authority that is senior to any lien created by a traditional mortgage or deed of trust, including a mortgage or deed of trust put in place as part of an SBA 7(a) or 504 loan.

SOP 50 10 7.1, Section A, Chapter 3, Para. A, 1. (page 34) is revised by adding a new paragraph h. that states:

h. SBA permits both 7(a) and 504 loans to be used in conjunction with commercial property assessed clean energy ([C-PACE](#)) financing. For 7(a) loans, SBA does ***not*** require the C-PACE financing to be included in the calculation to determine whether the loan is fully secured. For 504 loans, the C-PACE financing is considered to be a separate project from the 504 project (i.e., the C-PACE financing provider is not considered to be a Third Party Lender) even though they may close at the same time.

C-PACE financing is often done after a business has already received an SBA loan. A common requirement for C-PACE financing is the consent of existing lienholders. Since consent to C-PACE financing requests are subordination requests, the procedures in this notice are based in part on the Subordination of Lien Position requirements listed in Standard Operating Procedure (SOP) 50 55 and SOP 50 57.

7(a) Requests for Consent: A request to a 7(a) Lender for lienholder consent to C-PACE financing on real property that secures a loan guaranteed by the SBA under the 7(a) program is a unilateral action that does not require prior SBA approval or notice. Lenders remain obligated to service and liquidate their SBA-guaranteed loans in a diligent, commercially reasonable manner. Lenders must follow the guidelines provided in SOP 50 57 3.1, Chapter 8, Paragraph A (Modification of Collateral: Subordination of Lien Position) when reviewing requests to consent to C-PACE financing. Further, the Lender must make a determination that the C-PACE financing will not impair the value or marketability of the property in the event the Lender must liquidate the property. Documentation supporting this determination must be retained in the Lender's file.

504 Requests for Consent: Pursuant to SOP 50 55, Chapter 3, Para. D.3., all CDCs other than PCLP CDCs and Authorized CDC Liquidators (ACLs) must obtain SBA approval of a subordination of SBA's lien position to C-PACE financing and must submit all requests for SBA consent to the appropriate SBA Commercial Loan Service Center (CLSC) for review and approval. Such requests to the CLSC must address the requirements cited in SOP 50 55 Chapter 8 as well as the requirements cited below.

SOP 50 55, "504 Loan Servicing and Liquidation", Chapter 8, Para. A.1. is modified by adding a new paragraph A.1.i. as follows:

i. C-PACE financing. Requests to subordinate SBA's lien position to C-PACE financing must comply with paragraphs A.1.a.-h. above as well as the following. PCLP CDCs and ACLs must also follow the same requirements and retain supporting documentation of their determination in the file.

- (1) The analysis must include the reason for the action and a description of how the new money will be used, including the borrower's projected energy cost savings as a result of the C-PACE financing;
- (2) The C-PACE financing will not require the SBA to indemnify any party;
- (3) The C-PACE financing will not have any provision for acceleration;
- (4) The C-PACE financing must be fully amortized and have a term of at least 7 years when the 504 loan is for a term of 10 years and 10 years when the 504 loan is for 20 or 25 years. However, the term of the C-PACE financing must not exceed the useful life of the financed improvements. The improvements must be covered by warranty or an insurance policy for the term of the financing.
- (5) The C-PACE financing will be subordinate to the CDC/SBA lien regarding any prepayment penalties, late fees, other default charges, and escalated interest after default due under the terms of the C-PACE financing;
- (6) The C-PACE interest rates must be reasonable, and less than the SBA-published maximum interest rate for TPL loans;
- (7) The C-PACE financing will not impair the value or the marketability of the property in the event of default;
- (8) The request for consent to C-PACE financing must include specific citations to the state and local codes that require a first lien position for the C-PACE financing, and those that provide the specific mechanism for the collection of C-PACE assessments and the consequences of non-payment;

(9) The CDC submitting the request for consent to C-PACE financing will be responsible for ensuring the SBA has a properly perfected security interest in the newly installed fixtures and/or equipment;

(10) Evidence that the Third Party Lender has consented to the C-PACE financing; and

(11) The terms of the transaction must be set out in a properly executed subordination agreement.

Questions concerning subordinations for C-PACE financing should be directed to the appropriate Commercial Loan Servicing Center.

SOP 50 10 7.1 Updates Affecting Only the 7(a) Loan Program

Loan maturity for changes of ownership

SBA is making this update to allow loan maturity for all types of changes of ownership (complete change of ownership, complete partner buyout, partial change of ownership) to be based on a blended maturity of the underlying assets or, if 51 percent or more of the 7(a) loan's proceeds are for real estate, to allow a maturity up to 25 years. This option is already available for complete changes of ownership, and this update will allow longer loan maturities with more affordable payments for partial changes of ownership and complete partner buyouts.

SBA is also updating this language to clarify that the 7(a) loan's maturity is based on the uses of proceeds for the 7(a) loan versus based on the total project. This is relevant when the project has multiple sources of financing. SBA further clarifies that when the change of ownership is made through a stock purchase, the loan maturity may be based on the underlying assets/interest financed by the 7(a) loan as supported by a business valuation/appraisal.

SOP 50 10 7.1, Section B, Chapter 1, Para. B.3.e. (Standard 7(a) page 101); and Chapter 2, Para. B.3.a.i.e) (7(a) Small and SBA Express page 132) are revised as follows:

Mixed purpose loans and loans for all types of changes of ownership: When 7(a) loan proceeds are used for changes of ownership and/or for multiple purposes (land and building, working capital, machinery & equipment), or the refinancing of any of these purposes, the maturity may be a blended maturity or, if 51% or more of the use of the 7(a) loan's proceeds are for real estate, the maximum maturity may be up to 25 years. For stock purchases, the loan maturity may be based on the underlying assets/interest financed by the 7(a) loan as supported by a business valuation/appraisal.

Delete the following: SOP 50 10 7.1, Section B, Chapter 1, Para. B.3.f (Standard 7(a) page 101); and Chapter 2, Para. B.3.f) (7(a) Small and SBA Express page 132).

Liens on vehicles for Standard 7(a) loans

SBA is updating its requirements for Lenders to place liens on vehicles when the vehicle provides minimal recovery value. This update is not required for 7(a) Small or SBA Express

because collateral policies for these delivery methods provide that the Lender follow the same policies and procedures that it follows for its similarly-sized, non-SBA guaranteed loans.

SOP 50 10 7.1, Section B, Chapter 1, Para. C.3.c.i. (page 113) is revised as follows, with subparagraphs C.3.c.i.a)-d) remaining as-is.

i. SBA considers a loan as “fully secured” if the Lender has taken security interests in all assets being acquired, refinanced, or improved with the 7(a) loan (except for vehicles as noted below) and available fixed assets of the Applicant with a combined Net Book Value as adjusted below, up to the loan amount. For 7(a) loans, the term “available fixed assets” means real estate, including land and structures, machinery and equipment owned solely by the business or an EPC. SBA does not require the Lender to place a lien on vehicles unless the value of the vehicle (as reported by any of the following: an independent third party (e.g., orderly liquidation value from an appraisal, independent vehicle valuation company or website), or the purchase price allocable to such a vehicle if the 7(a) loan is being used to purchase the vehicle) is greater than \$10,000 at the time the SBA loan number is assigned by SBA. For the purpose of determining whether the Lender must place a lien on a vehicle, Lender must document the source and dollar amount of the vehicle valuation in the credit memorandum.

SOP 50 10 7.1, Section B, Chapter 1, Para. C.3.c.iv. (page 114) is revised and new subparagraphs a) and b) are added as follows:

iv. When loan proceeds from a Standard 7(a) Loan will be used to acquire, refinance, or improve assets (except for vehicles as noted in paragraph b) below), a first security interest in those assets must be obtained, except in the following circumstances.

a) When loan proceeds will be used to improve assets, a subordinate position is acceptable for the 7(a) loan if the existing debt is ineligible to be refinanced with a 7(a) loan, or if there is already debt on reasonable terms (e.g., if the Borrower has an existing loan for the purchase of a building and is getting a new 7(a) loan for improvements), in which case the Lender must document this fact in its credit memorandum.

b) SBA does not require the Lender to place a lien on vehicles unless the value of the vehicle (as reported by any of the following: an independent third party (e.g., orderly liquidation value from an appraisal, independent vehicle valuation company or website), or the purchase price allocable to such a vehicle if the 7(a) loan is being used to purchase the vehicle) is greater than \$10,000 at the time the SBA loan number is assigned by SBA. For the purpose of determining whether the Lender must place a lien on a vehicle, Lender must document the source and dollar amount of the vehicle valuation in the credit memorandum.

Collateral requirements on changes of ownership for 7(a) Small and SBA Express Loans

SOP 50 10 7.1, Section B, Chapter 2, Para. A.2.c. (7(a) Small and SBA Express page 127) is revised as follows:

c. The maximum 7(a) loan uses of proceeds for any change of ownership is capped at the business valuation amount. A business valuation must be prepared in accordance with the Lender's policies and procedures used for its similarly-sized, non-SBA guaranteed commercial loans, but at a minimum must be prepared in a commercially reasonable and prudent manner. When the business valuation is lower than the sales agreement, any financed capital required to meet the shortfall (in addition to the 7(a) loan and any equity injection) must be subordinate to the 7(a) loan.

SOP 50 10 7.1, Section B, Chapter 2, Para. A.2.j. (7(a) Small and SBA Express page 129) is revising what the Lender's loan documentation must include, subparagraph i., as follows:

i. For changes of ownership, a business valuation prepared in accordance with the Lender's policies and procedures used for its similarly-sized, non-SBA guaranteed commercial loans, but at a minimum must be prepared in a commercially reasonable and prudent manner. If required by the Lender's policies on similarly-sized, non-SBA guaranteed loans, a current business valuation in accordance with the Lender's policies on similarly-sized, non-SBA guaranteed loans.

ii. If required by the Lender's policies on similarly-sized, non-SBA guaranteed loans, a site visit of the business being acquired and documentation of the date of the site visit in the loan file in accordance with the Lender's policies on similarly-sized, non-SBA guaranteed loans.

iii. Business, stock, and asset purchase agreements, as applicable.

iv. Evidence that assets, including transferable licenses (e.g., liquor license) conveyed as a result of purchase are properly secured as collateral by the Lender in accordance with the Lender's policies on similarly-sized, non-SBA guaranteed loans.

SOP 50 10 7.1, Section B, Chapter 2, Para. C.3.a.ii., (7(a) Small and SBA Express page 143) is revised so it reads as follows:

ii. For loans over \$50,000, the Lender must follow the written collateral policies and procedures that it has established and implemented for its similarly-sized, non-SBA guaranteed commercial loans, including for real estate appraisals, except that SBA does not require a Lender to place a lien on non-business assets such as personal homes even if it is the Lender's policy to do so. For changes of ownership, the Lender must follow the written policies and procedures for business valuations that it has established and implemented for its similarly-sized, non-SBA guaranteed commercial loans, but at a minimum, a business valuation must be prepared in a commercially reasonable and prudent manner. A loan request is not to be declined solely on the basis of inadequate collateral. In fact, one of the primary reasons Lenders use the SBA-guaranteed program is for those Applicants that demonstrate

repayment ability but lack adequate collateral to repay the loan in full in the event of default. However, SBA does not permit its guaranty to be used as a substitute for available collateral.

SOP 50 10 7.1, Section B, Chapter 2, Para. C.3.b., “Real Estate Appraisal and Business Valuation requirements”, (7(a) Small and SBA Express page 143) is deleted.

Do-it-yourself construction

SBA is making this update because Lenders have indicated that applicants have difficulty obtaining two bids on do-it-yourself construction because contractors do not want to spend time preparing a bid for work they will not get.

SOP 50 10 7.1, Section B, Chapter 5, Para. A.4.e.ii. (page 270) is revised as follows:

- ii. The cost is the same as, or less than, either:
 - a) What an unaffiliated contractor would charge as evidenced by 2 bids on the work; or
 - b) A single estimate provided by a third-party construction management firm, or by the Lender’s existing internal construction management department if the Lender has an existing internal construction management department that routinely manages construction for its similarly-sized, non-SBA guaranteed commercial loans.

Partial change of ownership

In the partial change of ownership text in SOP 50 10 7.1, SBA used the word “individual” to reference a specific owner (without respect to whether the owner is a human or legal entity). SBA is updating the language to avoid confusion by revising and deleting the word “individual” in the following sections.

SOP 50 10 7.1, Section B, Chapter 1, Para. A.2.f.ii. (Standard 7(a) page 97); and Section B, Chapter 2, Para.A.2.f.ii. (7(a) Small and SBA Express pages 127-128) are revised as follows:

- ii. A Person(s) who is not an existing owner is purchasing 100% of the ownership interest in the small business. The small business and the Person(s) who is acquiring the ownership interest must be Co-Borrowers. In addition, the Note must be executed, jointly and severally, by both the Person(s) who acquires the ownership interest(s) and the small business whose ownership interest is being acquired. If the small business denies liability for the debt based on an alleged failure of consideration under applicable state law, SBA may deny liability on its guaranty.

SOP 50 10 7.1, Section B, Chapter 1, Para. A.2.g.i. (Standard 7(a) page 98); and Section B, Chapter 2, Para.A.2.g.i.. (7(a) Small and SBA Express pages 128) are revised as follows:

- i. One or more current owners is purchasing the entire interest of another current owner, resulting in 100% ownership of the business by the remaining owner(s). The small business and the owner(s) who is acquiring the ownership interest must be Co-Borrowers. In addition,

the Note must be executed, jointly and severally, by both the Person(s) who acquires the ownership interest(s) and the small business whose ownership interest is being acquired. If the small business denies liability for the debt based on an alleged failure of consideration under applicable state law, SBA may deny liability on its guaranty.

SOP 50 10 7.1, Section B, Chapter 1, Para. A.2.h.i. (Standard 7(a) page 98); and Section B, Chapter 2, Para.A.2.h.i. (7(a) Small and SBA Express pages 129) are revised as follows:

- i. Both the business and the Person(s) who is acquiring the ownership interest must be Co-Borrowers on the new loan.

Multi-step partial changes of ownership

SBA is adding language for Standard 7(a), 7(a) Small, and SBA Express loans to allow partial changes of ownership that are made through multiple steps where the result is a new entity owned by some or all of the owners of the original business and one or more new owners. The new entity becomes the new owner of the business. Provided all the following requirements are met, Lenders may approve these loans using delegated authority, or they may submit the loans to SBA for non-delegated processing. SBA is also adding a reminder that the regulation at 13 CFR § [120.111](#) does not permit 7(a) loans to be used for partial changes of ownership for businesses that are structured as an eligible passive company (EPC) and operating company (OC). Additionally, consistent with longstanding SBA practice, SBA is clarifying that to determine who must provide a guaranty, SBA measures the percentage of ownership based on beneficial ownership.

SOP 50 10 7.1, Section B, Chapter 1, Para. A.2.h., (Standard 7(a) page 98) and Section B, Chapter 2, Para. A.2.h. (7(a) Small and SBA Express page 129) are revised as follows:

Add a new subparagraph h.ii. that states:

- ii. Multi-step partial change of ownership: Loan proceeds may be used to fund a multi-step partial change of ownership when the change of ownership is structured such that some or all of the existing owners are bringing on a new owner(s) via the formation of a new entity that will become the 100% owner of the business (the operating company), and where the existing owners and the new owner(s) will be the owners of the new entity.

- a) Loan proceeds may not exceed the valuation allocable to the interest being acquired in the business (the operating company). For example: Two equal owners bringing on a new partner who will own 50% of the business. The loan proceeds may not exceed 50% of the business valuation allocable to the interest being acquired in the business.

- b) Both the operating company and the new owner(s) that did not previously have an ownership interest in the business must be Co-Borrowers on the new loan.

Add a new subparagraph h.iii. (Standard 7(a) page 98-99) and (7(a) Small and SBA Express page 129) that states:

iii. Partial changes of ownership, including multi-step partial changes of ownership, are not available to businesses structured as an EPC/OC due to the regulation at 13 CFR § 120.111.

Renumber the current subparagraph h.ii. as h.iv. (Standard 7(a) pages 98-99) and (7(a) Small and SBA Express page 129) and revise as follows:

iv. All remaining owners are subject to the requirements for guaranties in Section A, Ch. 5, Para. A, Guaranties. The percentage of beneficial ownership for this requirement is based on the post-sale percentage of beneficial ownership in the business. Note that for ESOP transactions, there is a statutory requirement that if the seller of the employer small business remains as a partial owner, the seller must provide a full, unlimited guarantee regardless of ownership – this statutory requirement cannot be waived.

Renumber the current subparagraph h.iii. as h.v. (Standard 7(a) page 98-99) and (7(a) Small and SBA Express page 129).

Procedural Notice 5000-852522, effective December 6, 2023, revised SOP 50 10 7.1, Section B, Chapter 1, Para. C.2.b.i.c)ii) (Standard 7(a) page 112). That revision remains in place and states:

ii) In the event the Lender is unable to document that i) above is satisfied, the new and/or existing owners must contribute cash either sufficient to reflect a debt-to-worth ratio of no greater than 9:1 on the business' balance sheet for the current quarter prior to the change in ownership or in the amount of at least 10% of the purchase price of the business, as reflected in the purchase and sale agreement, whichever is less.

Refinance of debt

SBA is clarifying that Lenders may refinance merchant cash advances, factoring agreements, and non-amortizing credit facilities. Although merchant cash advances, factoring agreements, and non-amortizing credit facilities can be helpful tools for capitalization, it can be difficult to determine the interest rate being charged or the required monthly (or more frequent) payment. SBA is making this update to provide borrowers with a means of exiting these credit facilities. SBA is also clarifying that these loans do not have to meet SBA's requirement for a ten percent improvement in installment payment amounts because these debts are presumed to not be made on reasonable terms.

SOP 50 10 7.1, Section B, Chapter 1, Para. A.1.a. (Standard 7(a) loans page 94); and Section B, Chapter 2, Para. A.1.a. (7(a) Small and SBA Express page 125), is revised to add a new paragraph xi. that states:

xi. Merchant cash advances, factoring agreements, and non-amortizing credit facilities, subject to paragraph h below.

SOP 50 10 7.1, Section B, Chapter 1, Para. A.1.d. (Standard 7(a) loans page 95); and Section B, Chapter 2, Para. A.1.d. (7(a) Small and SBA Express page 126), revise paragraph d. to state:

d. Ten Percent Improvement to Installment Payment Amount. When refinancing debt, the new installment payment amount must be at least 10 percent less than the existing installment amount(s). If other debt is being refinanced at the same time, such debt may be included in the installment payment improvement calculation. If the note terms include an escalating payment structure, the new installment amount must be at least 10 percent less than the expected installment amount within the next 12 months. The following credit facilities are exempt from this rule:

- i. Debt (short-term or long-term) structured with a demand note or balloon payment
- ii. Credit card obligations and HELOC used for business-related purposes
- iii. Merchant cash advances, factoring agreements, and non-amortizing credit facilities
- iv. Revolving lines of credit (short-term or long-term) where the original lender is unable or unwilling to renew the line or the Applicant is restructuring its financing in order to obtain a lower interest rate or longer term

SOP 50 10 7.1, Section B, Chapter 1, Para. A.1. (Standard 7(a) loans page 96); and Section B, Chapter 2, Para. A.1. (7(a) Small and SBA Express page 126), add a new paragraph h. that states:

h. For refinancing merchant cash advances, factoring agreements, and non-amortizing credit facilities, in lieu of proving that the debt being refinanced is and has been current for at least the last 12 months or for the life of the loan, whichever is less:

- i. The Lender may accept a statement obtained from the credit provider that the debt is current.
- ii. If Lender is unable to obtain a statement from the credit provider that the debt is current, Lender may obtain bank statements from the applicant for 12 months or for the life of the loan, whichever is less, evidencing that periodic ACH debits, initiated by the creditor, have occurred each month. Lender must review documentation for any evidence of late payments or penalties.
- iii. If there are late payments or penalties, Lender must explain in the credit memorandum why the Lender believes the Borrower will be able to make payments on the new 7(a) loan in a timely manner, and these loans must be processed by SBA under non-delegated procedures.
- iv. The credit facility and any security interests must be terminated with the refinance. Lender's credit memorandum must include detailed analysis describing the terms (including verifying the right of repurchase) and effect of the proposed repayment of such merchant cash advances, factoring agreements, and non-amortizing credit facilities on the future cash flow of the Borrower.

v. The above subparagraphs i.-iv., as applicable, must be documented in the Lender's credit memorandum.

SOP 50 10 7.1 Updates Affecting Only the 504 Loan Program

7(a) or 504 Lender Notification for Prior Government Debt Refinancing

Section C, Chapter 1, Paragraph C.11.b.iv.c) on page 300 is removed and replaced with the following:

An existing 7(a) loan may be refinanced in whole or in part. A 504 loan may only be refinanced in whole. The CDC must notify an existing 7(a) or 504 Lender in writing by letter or email no less than 10 business days to advise them the existing loan is being refinanced.

504 Change of Ownership and Appraisals

1.) Section C, Ch 1, Paragraph E. 2.b.i.a)ii)(a) on pages 316 and 317 is revised to renumber current (v) as (vii) and substitute (v) as follows:“(v) When the project includes a change of ownership”.

2.) Update Section C, Ch. 1, Paragraph E2 (b)(i)(j) and add a new (v) on page 318: (v) “For non-arm's length change of ownership projects, the property must appraise for 100% of the estimated value. The purchase price is limited to the lesser of the As-Is appraised value or the purchase price of 504 eligible fixed assets.”

Documentation Requirement Clarification – Alternative source of verifying seller's revenue

In Section C, Ch 1, Paragraph F.2.a., page 321, add a new subparagraph xxii. for 504 projects greater than \$500,000 that allows alternative sources of documentation to be used when IRS verification of seller financial information is not available. CDCs must use either the IRS tax verification data or the alternative sources of documentation to verify income and revenues so that the project's cash flow analysis may be verified.

xxii. For 504 projects greater than \$500,000 that fund a change of ownership, CDCs should obtain IRS verification of seller financial information as stated in Section A, Chapter 5, Para. B. (page 72), or, when IRS verification is not available, CDCs may verify the seller financial data using other forms of verification from third-party sources, such as sales tax payment records, data aggregation services, credit reporting services, etc. CDCs must use either the IRS tax verification data or the alternative sources of documentation to verify income and revenues so that the project's cash flow analysis may be verified. If the CDC is using alternative forms of verification for the seller's financial data, the CDC must discuss in its credit analysis why financial statements and/or tax returns are not available; and how the CDC verified business revenue.

Questions

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

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