

## Appraisal Standards for SBA 504 Loans

When confirming property values for SBA 504 loans, Self-Help Ventures Fund must review appraisals that meet SBA guidelines. Here are some tips on making the process work effectively.

The SBA is now requiring that appraisals be addressed to both the agency and to us as your CDC. Here are the addressing instructions:

Self-Help Ventures Fund and  
U.S. Small Business Administration  
c/o P.O. Box 3619  
Durham, NC 27702

Your appraisal will need to address the following issues:

- 1. Size Standard for Requiring Appraisals:** SBA will require an appraisal for any package in which the primary real estate being funded has an estimated value of \$250,000 or more. Consequently, the SBA will require an appraisal for almost every 504 transaction. If the package has a small real estate component of less than \$250,000, then the SBA might accept an evaluation in lieu of an appraisal. Contact Self-Help for more details about using an evaluation.
- 2. Restricted Use Appraisals:** The SBA will not accept restricted use appraisals (intended only for the primary client) for any loan. Restricted use appraisals omit certain key information on the appraisal, and will not provide adequate information to the SBA for evaluating the value estimated by the appraiser.
- 3. Requirements for Appraisal:** The appraisal report must be prepared in compliance with Uniform Standards of Professional Appraisal Practice (USPAP) and use one of the following options:
  - a. a self-contained appraisal report; or
  - b. a summary appraisal report.
- 4. Appraiser Requirements:** Appraisers must be:
  - a. independent and have no appearance of a conflict of interest (such as a direct or indirect financial or other interest in the property or transaction); and
  - b. either State-licensed or State-certified with the following exception: when the Project Property's estimated value is over \$1,000,000, the appraiser must be State-certified.
- 5. Scope of Work:** Because there is no longer any definition of "complete" vs. "limited" appraisals, the emphasis on appraiser instructions will shift to the scope of work. We will generally need to have the appraiser address all three standard approaches to valuation. However, it is permissible for the appraiser to conclude that one or two of the valuations are not relevant to the individual case. If that is the finding, the appraiser must clearly indicate the reasoning for excluding the valuation technique in the narrative of the report.

**6. Special Considerations for Particular Types of Projects:** There are additional requirements related to the nature of the project being financed:

- a. Real-estate projects involving no construction: When the collateral is an existing building that does not require construction, the appraiser should estimate market value on an as-is basis. If the appraiser estimates the value other than on an as-is basis, the narrative must include an explanation of why the as-is basis was not used.
- b. Real-estate projects involving construction: When the collateral will be new construction or involve substantial renovation of an existing building, the appraisal must estimate what the market value will be at completion of construction. (“Substantial” means rehabilitation expenses of more than one-third of the purchase price or fair market value at the time of the application.)

**After construction is completed, lender must obtain a certification from the appraiser that construction was completed according to plans and specifications, with only minor deviations (if any) from plans and specifications upon which the original estimate of value was based to be acceptable to the SBA.**

- c. Appraisals that could involve business valuation in tandem with real-estate valuation: If the appraisal 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 (“blue sky”). When the collateral is a special purpose property, the appraiser must be experienced in the particular industry.

**7. When the Appraisal is Due:** In general, we do not need to have the appraisal at the time of application. However, we need to see it as soon as it is done. So please have the appraiser mail us a copy as soon as it is ready, or forward a copy to us yourself. For some projects – in which we are counting value of previously owned land as equity, or when the real estate is one component of a business sale – we might need the appraisal with the application.

**8. Appraisals on Additional Collateral:** An appraisal is not required for real estate pledged as collateral but not financed by the SBA loan, unless the real estate is the "primary collateral" for the loan. Real estate is considered "primary collateral" for loans where the assets being financed provide less than 50% collateral coverage. If this project involves secondary collateral that meets this guideline, we will need to work with you to obtain an appraisal that meets the criteria outlined above.

For more information, contact your Self-Help loan officer before completing the appraisal order.