

3. Appraisal Requirements

(b) *Appraisals.*

SBA may require professional appraisals of the applicant's and principals' assets, a survey, or a feasibility study.

SBA's appraisal policy pertains to the assessment of value of real estate only (for transactions not involving a business acquisition) **or** of the real estate, business enterprise value and furniture, fixtures and equipment for business acquisition transactions (Going Concern Value). Appraisal guidelines are shown below:

SBA APPRAISAL GUIDELINES				
Type of Property / Loan Amount	\$250,000 or Less	\$250,001 to \$1,000,000	\$1,000,001 or more Non-Complex	\$1,000,001 or more Complex
Owner-Occupied Real Property (51% or more)	Evaluation	Limited Summary (must include SCA)	Complete Summary	Complete Self-Contained
Investment Real Property (Leased to 3 rd Parties)	Evaluation	Limited Summary (must Include IA)	Complete Summary	Complete Self-Contained
Going Concerns (See GC Section below) (Separate Value Estimates for Real Property, FF&E, BEV or Other Intangibles)	Complete Self-Contained	Complete Self-Contained	Complete Self-Contained	Complete Self-Contained

Notes

- The term "Limited" usually implies that an approach to value is not being considered.
- Examples of going concerns would include hotels, motels, restaurants, marinas, golf courses, restaurants or other similar type properties.
- **Evaluations** must include: preparer's name, how the estimated value was obtained, data sources and reasoning.
- **Restricted Reports** are not acceptable for loan purposes.
- The SBA does not require an appraisal for real estate that is used as collateral when the real estate is not being financed as a part of the SBA loan, unless the real estate is the "primary" collateral for the loan. This generally occurs with working capital and fixed asset acquisition loans where real estate is required as additional collateral. Real estate is "primary" collateral if, in your (or the lender's) opinion, the assets being financed provide less than 50 percent collateral coverage (based on reasonably estimated liquidation values) for the total amount of the loan. In this case only, the amount of the loan, not the amount of the real estate transaction, is the basis for determining the type of appraisal or evaluation to be conducted.

Going Concern Appraisals

- All business acquisitions involving real estate (going concerns) must be valued via a **Complete-Self Contained** appraisal detailing current, historical and projected revenues and expenses from the operation of the business.
- Every property that involves a going concern (as defined by the Appraisal Institute's *Dictionary of Real Estate* or *The Appraisal of Real Estate*) must specifically delineate all personal or intangible assets from the real property and specifically address each component of value as required by the most current edition of the *Uniform Standards of Professional Appraisal Practice*, published by The Appraisal Foundation. Appropriate and generally accepted methodology must be used.
- The SBA and all lenders must be aware that not all real estate appraisers are competent in the valuation of going concerns. Care should be taken to insure that appraisers used have the knowledge, data and expertise in valuing such properties.

Appraiser Qualifications

- Each appraiser must, at a minimum, hold the appropriate state certification or license in the state for which the property is located. The SBA and lenders should recognize that many appraisers hold advanced designations from appraisal organizations that exceed the minimum requirements of state certification.
- Appraisals may not be obtained, ordered by or addressed to a borrower. All appraisals **must** be obtained directly from a lender or its agent. Appraisals may not be re-addressed. It is acceptable to use an appraisal prepared for another lender provided that appraisal meets the new lender's and SBA guidelines. Appraisals prepared for a mortgage broker are considered to be unacceptable if the broker is considered to be acting on behalf of the borrower and is not a financial lender.
- All appraisals must comply with the most current USPAP.

References

In addition, to the above specific SBA requirements, lenders are encouraged to reference the following real estate regulations and guidelines:

- *Interagency Appraisal and Evaluation Guidelines* published by the five federal financial institutions regulatory agencies.
- 12 CFR 34, Real Estate Lending and Appraisals, including Section 560, Lending and Investment, Office of the Comptroller of the Currency, United States Department of the Treasury.