



SBA Procedural Notice

TO: All SBA Employees and SBA Lenders

CONTROL NO.: 5000-852522

SUBJECT: Updates to SOP 50 10 7.1

EFFECTIVE: December 6, 2023

Purpose of this Notice:

The purpose of this Notice is to revise provisions in SOP 50 10 7.1 related to Borrowers operating in leased space, equity requirements for complete partner buyouts and partial changes of ownership, and 7(a) loan maturities for complete changes of ownership. This Notice also clarifies provisions related to the use of 7(a) loan proceeds to refinance same institution debt. The revised provisions are effective as of the date of this Notice.

Responsibilities When the Borrower is Operating in Leased Space

SOP 50 10 7.1, Section A, Chapter 3, Paragraphs C.2.a. and C.2.b. (page 37), which applies to both the 7(a) and 504 Loan Programs, are revised as follows:

Subparagraphs C.2.a. and C.2.b. are deleted in their entirety and replaced with the following:

“a. When the Borrower is operating in leased space and when a substantial portion of the loan proceeds will be used for leasehold improvements or a substantial portion of the collateral consists of leasehold improvements, fixtures, machinery, or equipment that is attached to leased real estate:

i. The SBA Lender must obtain a copy of the written lease between the Borrower and the landlord. For 7(a) loans, the lease term, including renewal options exercisable only by the Borrower, should equal or exceed the term of the loan. For 504 loans, the lease term must equal or exceed the term of the loan. An assignment of lease and Landlord’s waiver should be obtained.

ii. If the SBA Lender is unable to obtain the assignment of lease or landlord’s waiver, for both 7(a) and 504 loans, the lease term, including renewal options exercisable only by the Borrower, must equal or exceed the term of the loan. Additionally, the SBA Lender must document its file with the attempt to obtain the assignment and the landlord’s waiver and the reason(s) for not providing it.”

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EXPIRES: 12/1/24

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

Must be accompanied by SBA Form 58

Subparagraphs C.2.c. and C.2.d. are renumbered as Subparagraphs C.2.b. and C.2.c, respectively.

Standard 7(a) Loans – Equity Requirements for Complete Partner Buyouts and Partial Changes of Ownership

In SOP 50 10 7.1, SBA intended to provide Borrowers using 7(a) loans to fund complete partner buyouts and partial changes of ownership with an additional method to meet minimum equity requirements that would allow for smaller cash outlays from the Borrowers or owners. One of the methods referenced measuring the business’ debt-to-worth ratio based on the business’ pro forma balance sheet. SBA is revising this text to clarify that the required cash contribution must increase the business’ debt-to-worth ratio based on the business’ balance sheet for the current quarter prior to the change in ownership and to clarify which owners must make the required cash contribution.

Consequently, SOP 50 10 7.1, Section B, Chapter 1, Paragraph C.2.b.i. (Changes of ownership – page 112) is revised as follows:

Subparagraph b.i.b)iii) is replaced with the following:

“iii) In the event the Lender is unable to document that both i) and ii) above are satisfied, the remaining owner(s) 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.”

Subparagraph b.i.c)ii) is replaced with the following:

“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.”

7(a) Loans to Refinance Same Institution Debt

SOP 50 10 7.1 set forth the prohibition in the regulation at 13 CFR § [120.452\(a\)\(2\)](#) that a Lender cannot make a 7(a) loan under Preferred Lender Program (PLP) delegated authority that reduces the 7(a) Lender’s existing credit exposure for any Borrower. SBA also clarified that Lenders with SBA Express authority may approve SBA Express loans that reduce the Lenders’ existing credit exposure to a Borrower, as these loans are not made using PLP delegated authority.

In response to questions about this provision, SBA is clarifying what is meant by reducing the 7(a) Lender’s existing credit exposure to a Borrower. Reducing the 7(a) Lender’s existing credit exposure to a Borrower occurs when 1) a 7(a) Lender refinances its own (also known as same institution debt (SID)) non-SBA guaranteed debt with the proceeds of a new SBA-guaranteed 7(a) loan, or 2) when a 7(a) Lender refinances an existing SID 7(a) SBA Express guaranteed loan with a new 7(a) loan that has a higher SBA guaranty percentage. This PLP underwriting prohibition applies even if the project size is increasing due to additional funds being provided

for other uses of proceeds such as when the project includes additional debt refinancing, real estate acquisition, or working capital, etc.

For example, if the 7(a) Lender has an existing SID non-SBA guaranteed loan for \$200,000, the 7(a) Lender's existing credit exposure to the Borrower is \$200,000. The 7(a) Lender would not be able to use PLP delegated authority to approve a new 7(a) Small loan for \$200,000 because with the 7(a) Small loan's 75% guaranty, the 7(a) Lender's credit exposure is reduced from \$200,000 to \$50,000. However, the 7(a) Lender may approve this loan using non-delegated procedures or as an SBA Express loan.

The existing SOP guidance regarding refinancing an existing 504 loan with a new 7(a) loan remains unchanged.

Loan Maturity for 7(a) Loans for Complete Changes of Ownership

SOP 50 10 7.1 states that for 7(a) loans for complete changes of ownership, only when the purchase price includes the commercial real estate from which the Applicant business operates (i.e., is not investment or personal real estate) and when the value of the commercial real estate is 51% or more of the purchase price, the loan may have a maximum maturity of 25 years. Otherwise, the maximum maturity is 10 years.

SBA is revising this requirement to permit a blended maturity on 7(a) loans for complete changes of ownership when the purchase price includes assets such as equipment that would for other types of loans have a term of up to 15 years based on the IRS asset class useful life and when less than 51% of the change of ownership purchase price is attributable to the value of commercial real estate.

SBA is revising the text in SOP 50 10 7.1, Section B, Chapter 1, Paragraph B.3.f.i. (Standard 7(a) loans, page 101), Section B, Chapter 2, Paragraph B.3.a.i.f)i) (7(a) Small and SBA Express loans, page 132), Section B, Chapter 4, Paragraph A.3.c.i.b)vii) (Export Express loans, page 197), and Section B, Chapter 4, Paragraph C.3.c.vii) (International Trade loans, page 246) to read as follows:

“For a complete change of ownership: If the purchase price includes the commercial real estate from which the Applicant business operates (i.e., is not investment or personal real estate) that is valued at 51% or more of the purchase price, the loan may have a maximum maturity of 25 years. If the purchase price does not include commercial real estate valued at 51% or more of the purchase price, the maturity for a loan for a complete change of ownership may be calculated based on the blended (pro-rated) assets included in the purchase price, with equipment, fixtures, or furniture having a term up to 15 years if the IRS asset class useful life supports the term, with commercial real estate from which the Applicant business operates having a term up to 25 years, and all other assets having a term up to 10 years. Otherwise, the maximum maturity is 10 years. In either scenario, if the complete change of ownership involves a commercial real estate project that is under construction, when calculating the maturity, the term attributed to real estate may be up to 25 years plus an additional period reasonably necessary for the construction or renovation.”

The existing SOP guidance regarding loan maturity for complete partner buyouts or partial changes of ownership remains unchanged.

Questions:

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

Kathryn Frost
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Office of Capital Access