SBA Information Notice

TO: All SBA Employees and 7(a) Lenders, and Certified Development Companies, Applicants and Borrowers of the 7(a) and 504 Loan Programs

CONTROL NO.: 5000-868665

SUBJECT: Issuance of SOP 50 10 8 with Technical Updates

EFFECTIVE: May 29, 2025

The purpose of this Notice is to inform 7(a) Lenders, Certified Development Companies (CDCs), together known as "SBA Lenders," SBA employees, and Applicants and Borrowers of the 7(a) and 504 Loan Programs of the issuance of Standard Operating Procedure (SOP) 50 10 8, Lender and Development Company Loan Programs with technical updates.

SOP 50 10 8 will become effective June 1, 2025, and will apply to all applications[1] that are issued an SBA loan number on or after that date. SBA Lenders and SBA employees must continue to use SOP 50 10 7.1 for 7(a) and 504 applications that are issued an SBA loan number through **May 31, 2025**. This version of SOP 50 10 8 with technical updates replaces the version of SOP 50 10 8 that was published on April 22, 2025.

Users are advised to fully read SOP 50 10 8 to ensure an understanding of all changes.

SOP 50 10 8 with technical updates contains the following updates.

Section A:

Ch. 1, Para. C, "Located in the United States" and Para. F. "Businesses Owned by Non-U.S. Citizens," pgs. 14 & 27: Added language that Applicant businesses and entity owners (whether direct or indirect) must be created, organized, or incorporated in the United States, its territories, or possessions. All direct and indirect owners and guarantors must have a primary residence in the United States, its territories, or possessions."

[1] SBA is in the process of updating application forms to correspond with SOP changes. Until updated application forms are available, SBA Lenders must collect all required information and certifications and retain them in the loan file.

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Ch. 1, Para. E.15 and 16, pgs. 25 & 26 “Types of Ineligible Businesses”, Delinquent Federal Debt and Prior Loss to Government. SBA Lenders **must** check the Credit Alert Verification Reporting System (CAIVRS) to determine if the Applicant is ineligible for a 7(a) or 504 loan because the Applicant or a business owned, operated, or controlled by the Applicant or any of its Associates has a Prior Loss or if the Applicant or any guarantor (except a Supplemental Guarantor) owes an outstanding nontax debt to the Federal Government, or any agency thereof, that is in delinquent status. Additionally, SBA Lenders must retain documentation of the CAIVRS check in the loan file.

Ch. 1, Para. F. “Businesses Owned by Non-U.S. Citizens,” pgs. 28-29: For U.S. Nationals, edited a sentence to read “When making a loan to a business owned by a non-citizen U.S. National, the SBA Lender must document in the loan file that the SBA Lender has reviewed evidence of the person’s status as a U.S. National (e.g., birth certificate or passport) and must enter the U.S. National’s Social Security Number on the application and into E-Tran.” Also added “When the applicant business has other businesses that report their taxes on the applicant business’s tax returns, all the businesses on the tax return are subject to these requirements. However, affiliate businesses and partially owned subsidiaries that do not report their taxes on the Applicant Business’s tax returns are not subject to these requirements.”

Ch. 1, Para. J. “OFAC Sanctions List,” pg. 40: Moved existing text on OFAC to this new paragraph and included additional instruction. SBA requires all participating SBA Lenders, including SBLCs, to comply with the U.S. Department of the Treasury regulations for Department of Treasury Office of Foreign Assets Control (OFAC) sanctions lists. SBA Lenders must determine that the applicant business and owners are not listed on the OFAC sanctions lists at the time of application. For 504 loans: SBA does not expect CDCs to duplicate the procedures of the Third Party Lender if the Third Party Lender is regulated by a Federal functional regulator (as defined in 31 CFR § 1010.100(r)) and submits annual certifications to the CDC that it (the Third Party Lender or its agent) will comply with the OFAC requirements with respect to all third party financings of 504 loans. Under these circumstances, it is acceptable to SBA if a CDC’s loan policy states that the CDC will rely on the Third Party Lender to verify the SBA Applicant against the OFAC sanctions list. The CDC has the option of performing its own verification of the SBA Applicant even if a Third Party Lender has already complied with OFAC regulations. If the Third Party Lender has not submitted the requisite annual certification to the CDC, the CDC must perform its own search of the OFAC sanctions lists.

Ch. 4, Para. C.2.c.ii. “Fees and Expenses the Lender May Collect from the Applicant or Borrower,” “Out-of-Pocket Expenses,” pg. 67: Edited a sentence to read, “Fees charged for legal services must be for services performed by a licensed attorney, or someone working under the licensed attorney’s direct supervision, regardless of whether the attorney is in-house or outside counsel.”

Ch. 5, Para. B, “IRS Tax transcript/Verification of Financial Data,” pgs 91-93: Added clarifying language for SBA Express and Export Express. Also, added a solution for when the IRS returns a “no records found” message. When the SBA Lender is unable to obtain a required tax transcript due to the IRS having no record of the return, SBA will permit the SBA Lender to proceed with loan closing if both of the following have been obtained: (1) Proof of filing of the required tax

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return, either through evidence of an IRS E-file submission or a paper return that has been stamped as received by the IRS, and (2) Proof of payment or refund of tax liability that reconciles with the stated liability on the tax return. If the business' tax liability is passed through to individual guarantors, the SBA Lender may use IRS tax transcripts for the individuals to verify their payment of taxes.

Section B:

Ch. 1, Para. A.2.h. Partial changes of ownership, pgs. 119-120, and Ch. 2, Para. A.2.h, pg. 156, clarified that for Standard 7(a), 7(a) Small, and SBA Express loans for partial changes of ownership:

Only a **new** direct or indirect owner (including individuals and entities) who is acquiring any direct and/or indirect ownership interest in the Operating Company must be Co-Borrowers on the new loan, regardless of the percentage of ownership being acquired.

For example, a Person who will be a **new** owner and who is gaining 1% direct and/or indirect ownership in the Operating Company must be a Co-Borrower. As a reminder, for Standard 7(a) loans, SBA requires all Borrowers and Co-Borrowers to be subject to providing their assets in the case of a collateral shortfall.

However, all remaining owners are subject to the requirements for guaranties in Section A, Ch. 5, Para. A, "Guaranties," based on the post-sale percentage of ownership in the business, except that any selling owner (one who receives payment in exchange for selling part of their ownership) who remains as a direct or indirect owner and owns less than 20% of the business post-sale must provide a guaranty for the full loan amount. The term of the guaranty must be for the later of (1) a period of at least 2 years after final loan disbursement; or (2) until the loan has been current (making payments in accordance with the terms of the Note and not on deferral) for 12 consecutive months. Lender may use SBA Form 148L or Lender's equivalent. On SBA Form 148L, the term "default" references default as defined in the Note. SBA does not require these guarantors that are providing a 2-year guaranty to provide their assets in case of collateral shortfall.

Ch. 1, Para. B. pg. 121 and Ch. 2, Para. B. pg. 157, added "All 7(a) term (non-revolving) loans may be structured with a period of interest-only payments on the front end of the loan. The Lender may sell the loan on the secondary market after the interest-only period ends."

Ch. 1, Para. C.3. pg. 138, in the case of a collateral shortfall on a Standard 7(a) loan, clarified that Lenders must take available equity in the personal real estate that is solely owned by any Co-Borrowers, direct and/or indirect owners of 20% or more of the Applicant and guarantors except Supplemental Guarantors.

Chs. 1 and 2, pgs. 138 and 174, Raised the threshold below which Lenders do not have to place a lien on a vehicle and added guidance that Lenders do not have to place a lien on a vehicle that already has a lien on it. SBA does not require the Lender to place a lien on vehicles that already have a lien or 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

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used to purchase the vehicle) is greater than $20,000 at the time SBA assigns the SBA loan number.

Ch. 2, Para. D.1. pg. 91, and Ch. 4, Para. A.5.a, pg. 185 added clarifying language regarding tax transcripts for SBA Express and Export Express loans.

Ch. 2, Para. D.1. pg. 186, in the Contents of SBA Express Lender's Application, added language to sync with the requirement in the Guaranty section that SBA Lenders must obtain a personal financial statement from all individuals guaranteeing the loan except for Supplemental Guarantors. Added "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 (including the assets of the owner's spouse and minor children), and proposed guarantors, except Supplemental Guarantors. Lenders may use SBA Form 413 or their own equivalent form."

Throughout the SOP:

SBA Lenders are now required to enter into E-Tran 100% of direct and indirect owners of the Applicant business.

Added language making it clear that a recently emerging practice in "search funding" is not eligible for the 7(a) Loan Program. A search fund is an investment vehicle through which an entrepreneur raises funds from investors in order to acquire a company in which the entrepreneur wishes to take an active, day-to-day leadership role. The emerging practices are that the investors purchase less than 20% of the business to avoid having to provide a guaranty, and they set up a side agreement with the entrepreneur that gives control of the business to the investor. The ineligible practices are (1) the entrepreneur is not actually in control of the business, and (2) the investors require the return of their investment before the guaranty is released. In Section A, Chapter 1, Para. E.3. pg. 20, "Types of Ineligible Businesses," added a note to e. that states: "Businesses that have entered into an agreement for control (including a side agreement), that gives a non-guarantor owner/investor control of the business, are ineligible." In Section B, Chapters 1-4, in the sections on sources of equity injection, added: An equity investment not subject to an agreement to repay equity or make distributions to recover an investor's investment prior to release of the guaranty. Note: Whether called "search funding" or by some other name, SBA will consider any investment subject to an agreement to repay equity or make distributions to recover an investor's investment prior to release of the guaranty (e.g., certain types of redeemable preferred stock) to be debt and not equity.

Made minor edits to the environmental requirements. Specifically, made edits to reflect that the Environmental Investigation Report must be dated within one year of the date of issuance of the SBA loan number.

Changed references to SBA's Commercial Loan Servicing Centers (CLSCs) to refer to the unified intake platform at Fresno CLSC with the email address FSC.Servicing@sba.gov.

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Made other minor edits for clarity.

Questions:

Questions concerning this Notice may be directed to the Lender Relations Specialist in the local SBA Field Office.

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