



SBA Procedural Notice

TO: All SBA Employees and SBA Lenders

CONTROL NO.: 5000-17051

SUBJECT: C-PACE Financing

EFFECTIVE: March 13, 2018

On July 26, 2016, SBA issued Procedural Notice 5000-1387, entitled “C-PACE Financing.” As explained in that notice, Property Assessed Clean Energy for commercial property (C-PACE) is a method of financing certain improvements to real property. C-PACE projects are generally financed through the issuance of local bonds and, 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 a 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.

A common requirement for C-PACE financing is the consent of existing lienholders. The notice directed 7(a) lenders to follow the procedures related to subordination requests in SOP 50 57 2 when reviewing requests to subordinate in favor of C-PACE financing. In addition, the notice provided guidance and procedures for Certified Development Companies (CDCs) to follow when seeking SBA consent to subordination in favor of such financing.

7(a) lenders and CDCs are reminded that SBA Procedural Notice 5000-1387 expired on July 1, 2017, and is no longer in effect.

CDCs are advised that due to the statutory and regulatory requirements and structure of the 504 loan program, including SBA’s second lien position on 504 Project Property, SBA has determined that subordination in favor of C-PACE financing is not appropriate for 504 loans. This is consistent with the policies on subordination set forth in 13 CFR 120.923. Accordingly, SBA will not be renewing the guidance and procedures set forth in SBA Procedural Notice 5000-1387 for requesting SBA consent to C-PACE financing in the 504 loan program, and will not be approving any such requests.

7(a) lenders are reminded that a request for consent to subordinate the lien position on real property that secures a 7(a) loan is a unilateral action pursuant to 13 CFR 120.535-120.536 and SOP 50 57 2. When reviewing a request to subordinate to C-PACE financing, or any other subordination request, 7(a) lenders must follow the guidance provided in SOP 50 57 2, Chapter 8, Paragraph A (Modification of Collateral Requirements: Subordination of Lien Position), including the requirement that the subordination will help the long or short term needs of the borrower without unduly impairing the ability to recover on the 7(a) loan. Any decision by a 7(a) lender to consent to subordinate the lender’s lien position on the 7(a) loan, including in favor of C-PACE financing, will be reviewed by SBA at the time of guaranty purchase, as well as when SBA is conducting lender oversight activities.

Questions concerning this Notice should be addressed to Susan Suckfiel at susan.suckfiel@sba.gov or (202) 205-6443.

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