



SBA Procedural Notice

TO: All SBA Employees, 7(a) Lenders and
Certified Development Companies

CONTROL NO.: 5000-872764

SUBJECT: Revisions to SOP 50 10 8 – 504 and 7a
Loan Program Updates

EFFECTIVE: September 30, 2025

The purpose of this Notice is to update SBA Standard Operating Procedure (SOP) [50 10 8](#) based on feedback received from 7(a) Lenders and CDCs. Where revisions are not included, the guidance remains as previously published in SOP 50 10 8.

A. Updates to the 7(a) and 504 Loan Programs

1. Update to the definition of New Business, and clarification on business expansions:

SBA is revising the definition of New Business to remove “in the same geographic area as the acquiring entity” in the eligibility criteria to distinguish between a new business and a business expansion.

Accordingly, the definition for New Business is found in Appendix 3: Definitions (page 408), which applies to both the 7(a) and 504 Loan Programs, and is revised to read as follows:

“New Business: (7(a) and 504) A business that has been in operation for 2 years or less at the time the loan is approved. A business that has been in operation for more than 2 years at the time the loan is approved may be considered a New Business if it is a change of ownership that will result in new, unproven ownership/management and increased debt unrelated to business operations.

If there is a change of ownership, the CDC must review the management and level of debt in order to decide whether an additional Borrower’s contribution of 5% is necessary. Operations are deemed to begin when the business begins generating regular recurring revenue from its intended operations.

When an existing business starts or acquires a business that is in the same 6-digit NAICS code with identical ownership, and they are Co-Borrowers, SBA considers this to be a business expansion and not a new business.”

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EXPIRES: 9/1/26

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

Must be accompanied by SBA Form 58

In addition, the Notes in Section B, Chapter 1, Paragraph C.2.b.iii.b) (page 134) and Section B, Chapter 2, Paragraph C.2.a.ii.b)ii)(b) (page 171) are revised to read as follows:

Note: When an existing business starts or acquires a business that is in the same 6-digit NAICS code with identical ownership, and they are Co-Borrowers, SBA considers this to be a business expansion and not a new business. “Same geographic area” means the acquiring entity is located within a reasonable distance of the subject business, allowing management to exercise similar daily control over both locations.

B. Updates to the 7(a) Loan Program

1. Upfront Fee Calculation for Multiple 7(a) Loans Within 90 Days

As first introduced in SBA Information Notice 5000-872051, 7(a) Fees Effective October 1, 2025 for Fiscal Year 2026 and 90-Day Rule Clarification (Effective August 28, 2025), SBA is revising the rules for multiple 7(a) Loans made within 90 days to exclude the Working Capital Pilot (WCP) and Export Working Capital Program (EWCP) from being combined with other 7(a) loans for purposes of determining the Upfront Fee.

Accordingly, Section A, Chapter 4, Paragraph C.1.a.ii. Upfront Fee Calculation for Multiple 7(a) Loans Within 90 Days (Page 61) is revised to read as follows:

Except for scenarios involving WCP and EWCP loans, when two or more 7(a) loans (with maturities exceeding 12 months) are approved for an applicant, including its affiliates, within 90 days of each other, the loans are considered as one loan for the purpose of determining the percentage of guaranty and the Upfront Fee calculation. This rule applies regardless of whether the loans were approved by the same or different Lenders.

For WCP loans, and EWCP loans: When two or more 7(a) loans are approved for an Applicant (including its affiliates), within 90 days of each other, and one or more of the 7(a) loans is a WCP or EWCP loan, the loan amounts are combined as if they are one loan to determine the percentage of guaranty and Upfront Fee relief for manufacturers. For purposes of calculating the Upfront Fee in this scenario, WCP and EWCP loans are not combined with any other 7(a) loans since their guaranty fees are based on the maturity.

2. Update to Collateral Requirements and Lien Recordation

SBA is revising the collateral and lien recordation policies to recognize the delay that may be experienced by Lenders in some jurisdictions between when a Lender files a lien with the appropriate office and when it is recorded by that office. SBA will allow Lenders to sell loans on the secondary market once the Lender has filed the lien with the appropriate office, on the condition that the Lender will be subject to a full or partial denial of liability on the loan should the Lender ultimately fail to obtain a properly perfected and recorded required lien with the required priority.

Accordingly, Section B, Chapter 5, Paragraph D.5 Collateral (Pages 321-322) is revised as follows:

“The Lender must obtain all required collateral and must meet all other required terms and conditions as applicable before or at the time of disbursement. Required terms and conditions include requirements identified in the credit memorandum, such as cash/equity injections, standby agreements, appraisals or evaluations, etc.

Lenders must obtain a valid and enforceable security interest in any loan collateral with evidence of proper lien priority and must retain in their loan file proof of the lien filings, and, when received, proof of the recordation of the liens.

Lenders may sell loans on the secondary market after filing a required lien with the appropriate office, but before receiving proof from the appropriate office that the required filing was recorded. However, if the loan defaults, and there is a loss resulting from the Lender’s failure to obtain a properly perfected and recorded required lien with the required priority, the Lender will be subject to a full or partial denial of liability equal to the guaranteed share of the net loss.”

3. Business Valuation Requirements for Loans to Employee Stock Option Plan (ESOPs)

The following language is added to SOP 50 10 8 in Section A, Chapter 2, Paragraph B. on page 29, as the new subparagraph 11.

“11. Regardless of the requirements stated throughout this SOP for business valuations, an independent business valuation is not required when the Lender is making a loan involving ESOPs for the types of loans discussed in this Paragraph B. In lieu of an independent business valuation, the Lender may use the valuation obtained by the ESOP that was made in accordance with ERISA specifications.”

4. Update to Appendix 13: 7(a) MANUFACTURERS' ACCESS TO REVOLVING CREDIT (MARC)

SBA is clarifying in Appendix 13 (7(a) MANUFACTURERS ACCESS TO REVOLVING CREDIT (MARC)) that a MARC loan may not be submitted under a PLP Lender's delegated authority if it refinances a PLP Lender’s same institution debt (SID). Per 13 CFR §120.452(a)(2), A Lender may not make a PLP business loan that reduces its existing credit exposure for any Borrower.

Accordingly, SBA is revising Appendix 13, Paragraph 1.c., Ineligible Uses of Proceeds by adding the following sentence to the end of the first paragraph:

“Refinancing of same institution debt may not be processed under a Lender’s PLP authority.”

Also, SBA is revising Appendix 13, Paragraph 1.h. Submission of Application for Guaranty, to add a new sentence to the end of the introductory subparagraph, to change the language in the first bullet, and to add a new bullet between the current first and second bullet as follows:

“Lenders with PLP delegated authority: Lenders with PLP delegated authority are required to process 7(a) MARC loans using their PLP authority, except loans to refinance same institution debt (SID), which may not be submitted under a Lender’s PLP authority and must be submitted under non-delegated processing. Lenders with PLP delegated authority:

- Must process all loan applications (except for loans used to refinance SID) using their delegated authority.
- May only submit applications to SBA via E-Tran for approval under non-delegated procedures when the loan will refinance the Lender's same institution debt."

The subsequent bullets in this paragraph remain unchanged.

C. Updates to the 504 Loan Program

1. Updated Franchise Requirements for CDCs:

SBA is revising the procedures for CDCs when processing applications involving a franchise, to clarify that, prior to closing, CDCs must obtain an executed franchise agreement and any other document the franchisor requires the franchisee to sign.

Accordingly, Section A, Chapter 1, Paragraph G.5.f.iv.b)i)-ii) (Page 36), are revised as follows:

- i) For all 504 loans, prior to closing, the CDC must obtain a copy of the executed franchise agreement and any other document the franchisor requires the franchisee to sign. The CDC must submit this documentation to their closing counsel, who will review and certify that the franchise documents are executed properly and comply with the SBA procedures set forth in SOP 50 10 8 and the [SBA Franchise Directory](#).
- ii) CDC Closing Counsel will certify to the legal sufficiency of the franchise documents using the revised Opinion of CDC Counsel when submitting the closing package to the local District Counsel. SBA Form 2268 (504 Debenture Closing Checklist) has the requirement to include the Opinion of CDC Counsel as a requirement (Appendix D to the 504 Authorization Boilerplate).

2. Update to Contingency Fund

SBA is increasing the construction contingency for 504 projects from 10% to 15% and is clarifying that if residual contingency amounts that do not exceed 2% are refunded to the small business it must be as working capital.

Accordingly, Section C, Chapter 1, Paragraph C.8 Contingency Fund (Page 337) is revised as follows:

"May not exceed **15%** of the Project construction costs:

- a. If the residual contingency amount does not exceed 2% of the debenture just prior to closing, it may be refunded to the small business as working capital at the time the debenture is funded.
- b. If the contingency residual is in excess of 2% of the debenture just prior to closing, the funds may not be distributed to the small business as working capital, and the debenture must be reduced by the unused amount."

3. Do-it-Yourself Construction

SBA is revising the procedures for Do-it-Yourself Construction within the 504 program to better match the procedures applicable to the 7(a) program.

Accordingly, Section C, Chapter 1, Paragraph C.9 “Do-it-yourself” Construction (Page 337) is revised as follows:

9. “Do-it-yourself” Construction

“Do-it-yourself” construction, including renovations, and/or installation of machinery and equipment, or situations where the Applicant acts as its own contractor have proven to be generally unsatisfactory and can cause problems with lien waivers and mechanics liens, causing potential losses to lenders and/or SBA.

“Do-it-yourself” construction, including renovations, (e.g., installation of carpeting or painting) and/or installation of machinery and equipment may be permitted, if the CDC can justify and document in the loan file that:

- a. The Borrower/contractor is experienced in the type of construction and has all appropriate licenses;
- b. The cost is the same as, or less than, either:
 - i. What an unaffiliated contractor would charge as evidenced by two bids on the work; or
 - ii. A single estimate provided by a third-party construction management firm, or by the Third-Party Lender’s existing internal construction management department if the Third Party Lender has an existing internal construction management department that routinely manages construction for its similarly-sized non-SBA guaranteed commercial loans.
- c. The Borrower/contractor will not earn a profit on the construction.

4. Appraisal Requirements for Non-Arm’s Length Transactions and Change of Ownership Projects

SBA is clarifying that appraisals must be submitted to the Sacramento Loan Processing Center (SLPC) for both non-arm’s length transactions and change of ownership projects.

Accordingly, Section C, Chapter 1, Paragraph E.2.b.i.j)v) (Page 365) is revised as follows:

- v) For both non-arm's length transactions and change of ownership projects, the property must appraise for 100% of the estimated value. The purchase price is limited to the lesser of the As-Is appraised value or the purchase price of 504 eligible fixed assets.

5. Clarification of CDC Authority for Disbursement Periods

SBA is clarifying the procedures for extending the disbursement period of a 504 Project and the process to request an extension.

Accordingly, Section C, Chapter 2, Paragraph A.2.a (Page 371) is revised as follows:

- a. Disbursement Period: The loan must be disbursed within 48 months from the date of approval, unless an exception to policy is approved and an extension is granted by SBA through the OFPO/SLPC, with concurrency by SBA CFO to confirm funding authority. For Debt Refinance without Expansion, the loan must be disbursed within 9 months from the date of approval. For Debt Refinance without Expansion, SBA may grant an extension not to exceed 15 months. When appropriate, SLPC will also refer extension requests to OFA for concurrency with OGC and the CFO.

SBA will track the approved time frame for loans and automatically cancel undisbursed dollars. The Denver Finance Center (DFC) will make a reasonable effort to mail an initial message to the CDC approximately 3 months prior to taking action on undisbursed funds. The message will inform the CDC of the undisbursed dollar amount and will provide a date on which the dollars will be automatically cancelled. After the 3-month message has expired, DFC will make a reasonable effort to mail a second message on the day the automatic cancellation is processed.

To request an extension of the disbursement period, a CDC must submit the request through the SLPC as a 327 action and must include the following:

- i. The reason for the extension, with a detailed timeline for project completion and funding.
- ii. A determination of no adverse change.
- iii. Updated financial statements dated within 120 days of the request and analysis thereof.
- iv. Documentation to demonstrate how the project sources and uses have been adjusted for any increases in project costs.

For loans processed under a CDC's PCLP authority, items listed under Section C, Ch. 1, Para. F.2.a.i.-iv. must be submitted directly through E-Tran with notification to the SLPC for review and consideration.

6. PCLP Extension Limits

SBA is clarifying the timeframe in which PCLP CDCs may modify the E-Tran Terms and Conditions in order to remain consistent with the guidance in Section C, Chapter 2, Paragraph A.2.a.

Accordingly, Section C, Chapter 2, Paragraph B.4.a (Page 375) is revised as follows:

- “a. Generally, PCLP CDCs may modify and extend the E-Tran Terms and Conditions up to 48 months from the date of approval using their unilateral authority. PCLP CDCs must upload the final modified executed terms and conditions to E-Tran within 15 business days after debenture funding.”

7. Adjusting 504 Debt Refinance Balance

SBA is expanding Section C, Chapter 2 Paragraph C.5, a.i” (e) on page 382 as follows:

- “e) No funds should be paid directly to the Borrower unless the CDC obtains evidence of the Borrower’s payments (cancelled checks and paid invoices). For 504 debt refinance balances the principal balance of loan(s) approved for the debt refinance may decrease between the original approved amount and the actual balance due at 504 loan closing and funding because of intervening payments made by the Borrower. SBA requires that the CDC document its file to account for the changes to the principal balance of the refinanced debt that arise after loan approval, and provide this information to District Counsel with the closing package. OCRM will include this as part of a CDCs review.

Submission of 327 loan modification requests to SLPC are not required to reduce the originally approved debt refinance amount (with or without expansion) when:

- (i) Account for the principal reductions from payments made by the borrower on the debt being refinanced during the period between submission and disbursement;
- (ii) The principal amount of these debt payments may be reimbursed to the borrower from the proceeds of SBA-approved interim financing, or from the SBA debenture if no interim financing is used.

Submission of 327 loan modification requests to SLPC are required when the approved project costs are reallocated, unless it is an ALP Express Loan, in which case de minimis reallocations are allowed as stated under Section C, Chapter 2, Paragraph B.3.e (page 375).

Questions

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

Thomas Kimsey
Associate Administrator
Office of Capital Access