



# SBA Procedural Notice

---

**TO:** All SBA Employees and Certified Development Companies

**CONTROL NO.:** 5000-20040

**SUBJECT:** Guidance on Underwriting 504 Loans during the COVID-19 Pandemic

**EFFECTIVE:** July 28, 2020

---

On March 13, 2020, President Trump declared the ongoing Coronavirus Disease 2019 (COVID-19) pandemic of sufficient severity and magnitude to warrant an emergency declaration for all States, Territories, and the District of Columbia. SOP 50 10 5(K), Subpart C, Ch. 1, II.A. states that CDCs must analyze each application in a commercially reasonable manner consistent with prudent lending standards. SBA recognizes that prudent underwriting during the COVID-19 emergency includes taking into consideration the current and future effects the emergency has on business operations, cash flow and repayment ability of 504 applicants.

This Notice provides additional analysis that SBA recommends that the CDC should conduct and include in its credit memorandum as a best practice during the COVID-19 emergency in order to evidence that the CDC has performed prudent underwriting and provided an adequate financial analysis of the Applicant's ability to repay the loan. SLPC may request additional information to facilitate the proper loan decision if sufficient information is not provided when the application is submitted. This guidance is in effect through December 31, 2020.

For 504 loans, the cash flow of the Applicant is the primary source of repayment. If the CDC's financial analysis demonstrates that the Applicant lacks reasonable assurance of repayment in a timely manner from the cash flow of the business, the loan request must be declined, regardless of the collateral available. During the COVID-19 emergency, the CDC's financial analysis of the Applicant and credit memorandum should consider the following:

- 1) Does the eligible small business concern (SBC) have any other loan(s) (PPP, EIDL, or other stimulus financing, etc.) that have repayment or contingent repayment requirements that could impact cash flow? If yes:
  - a. What is the loan's status (on deferment, past due, for PPP loans forgiveness application in process etc.)?
  - b. What is the cash flow during and after any payment deferment period?
  - c. What will the cash flow be if the loan is fully, partially or not forgiven?

- d. What lien position will the new 504 loan have?
- 2) Based on the sector and industry in which the SBC operates, how is the industry and the business impacted by the COVID-19 emergency? Have SBC's business revenue and staffing levels have been impacted, and has the applicant provided a plan to return to normal operations.
  - 3) If the SBC is in a state with a stay-at-home order, when is the order scheduled to be lifted, and how has the order affected the SBC's ability to operate (social distancing, traffic flow, trade restrictions, inventory and equipment needs)?
  - 4) How concentrated or diversified is the customer base. How reliant is the SBC on sales to or receivables from customers in those concentrations?
  - 5) How concentrated or diversified is the SBC's vendor/supplier pool, and which, if any vendors/suppliers have decreased ability to support the business?
  - 6) If using historical financial data, an explanation of why the data is a reliable indicator of the Applicant's ability to meet all business obligations, including the proposed loan's debt payments, in light of the current economic impact of COVID-19, or provide pro forma monthly cash flow statements for up to 2 years (based on phased reopening) with a break-even analysis.
  - 7) Discussion of the impact current market conditions have on collateral adequacy.
  - 8) For 504 loans that will be approved after this notice and funded by September 2020 (with the Central Servicing Agent cutoff date of August 27, 2020), the CDCs need to consider whether loan approval should be conditioned on the execution of a COVID-19 agreement. If so, this should be included in the loan authorization and the COVID-19 agreement must be provided with the closing package.

### **Additional Considerations**

- Feasibility and Other Studies – SBA encourages SBC's to obtain or update these as necessary when they are appropriate. Size and scope of the Project would be the driving factor.
- Appraisal – SBA recognizes the impact of COVID-19 on appraisals can differ by region and industry. SLPC will use its discretion to advise if a submitted appraisal is acceptable, making reasonable decisions in favor of the SBC when appropriate.

### **Questions**

Questions concerning this Notice may be directed to [504Questions@sba.gov](mailto:504Questions@sba.gov)

Dianna L. Seaborn  
Director  
Office of Financial Assistance