

September 17, 2004

The Honorable Hector V. Barreto, Jr.
Administrator
United States Small Business Administration
409 3rd Street, S.W.
Washington, D.C. 20416

Dear Administrator Barreto:

On behalf of the more than 18,000 members of the Appraisal Institute, we respectfully request the Small Business Administration (SBA) amend the Appraisal Requirements in Standard Operating Procedure 50-10 on "Loan Processing" by clarifying the type of real estate appraisals that should be ordered by financial institutions in SBA transactions.

Given the terminology of SOP 50-10, as it is currently written, SBA lenders and appraisers are following Appraisal Requirements that are inconsistent with that of the real estate industry and the real estate appraisal profession. As a result, both lenders and appraisers are often confused about the type of appraisal to be ordered and produced.

Specifically, SOP 50-10 states that loans under \$1,000,000 require a "Limited Appraisal" while loans over \$1,000,000 must have a "Complete" appraisal. To an appraiser, these terms do not fully explain the assignment without further instructions. According to our members—both fee appraisers and those who work for banks ordering and reviewing the work of fee appraisers—the lack of guidance in this area creates confusion among appraisers regarding the kind of "Complete Appraisal" the SBA requires. This situation is more challenging for non-regulated lenders and small banks that do not have compliance departments experienced with the Uniform Standards of Professional Appraisal Practice (USPAP) and the appraisal process.

In addition, the Appraisal Requirements do not adequately address "going concern" values. "Going Concern" value includes both tangible assets such as real estate, fixtures, furnishings and equipment as well as intangible assets such as goodwill and business enterprise value. If not considered and allocated properly, the appraisal may inject misleading information into the underwriting process. While the SBA allows for lending against going concerns, many appraisals include going concern value as part of the real estate value. Thus the SBA finds its loans at undue risk when a business fails and intangible assets disappear. Unclear guidance regarding going concern value in SOP 50-10 is helping contribute to this problem. If left unaddressed, the SBA will continue to take significant losses on these loans, which of course, negatively impacts SBA's default and subsidy rates.

The SBA has an opportunity to address inconsistencies in SOP 50-10 in light of the release on July 15, 2004, of an exposure draft relating to a Scope of Work Project by the Appraisal Standards Board of The Appraisal Foundation. The integration of the concept of Scope of Work, which is firmly embedded in the processes of many professions, in USPAP would provide more clarity and enforceability of standards and further the goal of having core standards that change less frequently. As such, the concepts of "limited" and "complete" appraisals would give way to a scope of work decision that drives the entire development process of the appraisal. In essence, if the SBA chooses not to revise SOP 50-10, pending changes to USPAP will render the SOP completely out of touch with current appraisal standards.

The Appraisal Institute urges the SBA to revise SOP 50-10 to address these concerns. We would like to offer our assistance to help the SBA meet this goal. As a first step, we are attaching suggestions for how the SOP can be amended to improve the Appraisal Requirements and make the SOP consistent with current appraisal standards. We hope the SBA uses this as a starting point for further dialog with the appraisal profession to resolve these issues as soon as possible.

Should you have any questions or concerns, please contact Don Kelly, Vice President of Public Affairs, at 202-298-5583 or dkelly@appraisalinstitute.org.

Sincerely,

A handwritten signature in black ink, appearing to read "Gary P. Taylor", with a long horizontal line extending to the right.

Gary P. Taylor, MAI, SRA
President

Attachment