

SBA SOP 50 10 8.1 – What Lenders Need to Know

SBA SOP 50 10 8.1 becomes effective October 1, 2026 and includes a number of changes to both the 504 and 7(a) programs. Rather than summarize every revision, we've highlighted the changes most relevant to our lending partners—particularly those that may affect **deal structure, underwriting, documentation or coordination with the CDC (Coastal Community Capital)**.

Changes Most Likely to Affect Your 504 Transactions

1. Minimum Debt Service Coverage increases to 1.15x

For 504 transactions, historical debt service coverage must now be at least 1.15x, up from 1.00x. DSC is generally calculated using EBITDA divided by combined post-transaction debt service based on the most recent fiscal year-end or an average of the two most recent fiscal years.

Why it matters: The higher minimum cash-flow threshold should be considered early when evaluating marginal transactions.

2. Projects of \$5 million or more require the bank's underwriting

For 504 projects with total project costs of at least \$5 million, the CDC must obtain and incorporate the Third Party Lender's underwriting into our credit analysis, including repayment ability, collateral and material loan terms.

Why it matters: For these larger projects, please plan to provide the CDC with your credit memo or equivalent underwriting analysis prior to the CDC submitting to SBA for approval.

3. Bank maturity and amortization cannot exceed the 504 term

The maturity of the Third Party Loan may not exceed the 504 debenture term, and its amortization may not exceed the 504 amortization.

Why it matters: Coordinate the bank loan structure with the CDC early if a longer maturity or amortization is being considered.

4. 504 and 7(a) maximum loan limits have been decoupled

Under previously issued SBA guidance now incorporated into SOP 8.1, a borrower's outstanding or proposed 7(a) exposure no longer reduces the maximum 504 debenture available for an eligible project.

Why it matters: Businesses with existing or concurrent 7(a) financing now have access to greater 504 financing capacity.

5. Construction projects

The standard construction contingency was previously increased from 10% to 15% and is now incorporated into SOP 8.1. The SOP also contains expanded requirements for borrower-performed construction. If the unused contingency exceeds 2% of the debenture, the excess generally must be addressed through a reduction in the debenture rather than converted to working capital.

6. 504 Debt Refinance Without Expansion

Qualified Debt must have been fully disbursed for at least six months before application. Evidence of the required advance notice to an existing 504 or 7(a) lender must also be included in the SBA submission.

7. More capacity for qualifying energy projects

SBA eliminated the previous \$16.5 million aggregate cap on outstanding 504 debentures for eligible Energy Public Policy projects. The maximum remains \$5.5 million per qualifying project, creating additional capacity for businesses undertaking multiple qualifying projects.

Other 504 Changes to Keep on Your Radar

Other changes that may affect individual transactions include:

- **Personal Financial Statements:** generally must be dated within 90 days of approval; non-owner spouses are not required to sign.
- **Trust ownership:** if a trust owns any percentage of an applicant, both the trust and Trustor are subject to SBA guaranty requirements.
- **Financial reporting:** CDCs must analyze the highest level of financial reporting available, while continuing to review tax returns for eligibility.
- **Historic properties:** installation of equipment may trigger SBA historic-property due diligence.
- **Additional guidance** addresses amended tax returns, passive-business eligibility, FMCSA/USDOT verification and non-environmental open-ended indemnification provisions.

7(a) Changes Worth Knowing — Particularly for Business Acquisitions

SOP 8.1 significantly revises the rules for 7(a)-financed changes of ownership. These changes may also affect 504 transactions when the acquisition of a business and real estate occur together.

- Four acquisition categories: Initial Acquisition, Business Expansion, Owner Buyout, and ESOP/Cooperative, with different underwriting requirements.
- Minimum historical DSC is generally 1.25x for Initial Acquisitions and Owner Buyouts and 1.15x for qualifying Business Expansions. Projections cannot be used to satisfy the minimum DSC requirement.
- Initial Acquisitions require a 10% equity injection; certain Business Expansions and Owner Buyouts may qualify for reduced or eliminated equity requirements.
- An independent business valuation is required for all change-of-ownership transactions, regardless of size.
- A Quality of Earnings (QoE) report is required for Initial Acquisitions and Business Expansions when the Business Purchase Price is at least \$3 million.
- The non-real-estate portion of an acquisition is generally limited to a 10-year amortization.
- Change-of-ownership loans of \$350,000 or less remain eligible for 7(a) financing, but must follow Standard 7(a)/Appendix 15 underwriting rather than 7(a) Small underwriting standards.

Questions About a Transaction?

SOP 50 10 8.1 includes a number of changes beyond those highlighted here. If you have a new deal or questions about how these changes may affect a transaction, please contact Coastal Community Capital (www.coastalcommunitycapital.org). We're happy to review it with you early in the process.

Disclaimer: This summary is for general informational purposes and does not replace or modify SBA requirements. Please refer to the SOP or applicable SBA guidance for complete requirements.