

Valuation Professionals: Be Aware of New Rules; Speak Your Mind

Call them what you want: special-purpose properties, trade-related properties, single-use properties. There has been an ever-increasing issue over their valuation that has reached the point that requires full disclosure of that issue to the valuation universe.

Up to a few years ago, valuations of hotels, hospitals, gas stations, casinos and parking garages were valued as businesses, with both accredited business valuers and specialized real estate appraisers doing the work.

Notable specialists like Steve Rushmore of HVS in the hospitality world and Hopkins Appraisal Services for gasoline stations have built reputations based on many years of specialized valuation service to their specific sectors, and their work is accepted by lenders, courts and accountants. This is because their work drew on well-established methodologies and valuation concepts, and was also accepted by the valuation profession.

But now we have a new breed of general property appraisers eager to expand their areas of practice, and where better to expand than into lucrative specialty practice areas like special-purpose properties. Why was this suddenly attractive? The major stimulus was the issuance in October 2011 by the Small Business Administration of its SOP 50 10 5(D) governing the performance, by real estate appraisers, of going-concern appraisals of special-use properties in connection with SBA guaranteed loans.

Subpart B, Chapter 4.C.5 (c) - Business Valuation Requirements-Change of Ownership, states "A 'qualified source' is an individual who regularly receives compensation for business valuation and is either" a CPA performing business valuations or an

accredited ASA, CBA, ABV, CVA or AVA. This is similar to the earlier 2009 version of the SOP, but the following section states "The lender may use a going concern appraisal to meet these requirements if: (2) the appraisal is performed by an appraiser experienced in the particular industry *and who is either 'a qualified source' as identified in paragraph 5(c) above or has successfully completed the Appraisal Institute course 'Fundamentals of Separating Real and Personal Property from Intangible Business Assets'...*"

What is that newly inserted course that gives general real estate appraisers the ability to now perform business valuations of special-purpose properties? (Note that one has to be an accredited business valuer OR to have taken this course.)

It is a course that the Appraisal Institute started in 2004, withdrew it due to the course's inherent problems, and now has brought it back. It can be found on the AI website at: http://www.appraisalinstitute.org/education/course_descrb/Default.aspx?prgrm_nbr=833&key_type=C. This course takes 15 hours, including a one-hour exam, and can be taken by anyone, and, according to the SBA, qualifies any successful course graduate to perform going concern business valuations.

And to think this author wasted his time on the four 3.5-day ASA BV courses and exams, the five years of documented full-time business valuation experience, the two peer-reviewed valuation reports, not to mention the 23 years of continuing education and those pesky dues for professional societies.

My sarcasm and skepticism aside, the serious issue on the table is competency and the clear potential for



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failure to comply with the competency requirements of USPAP, IVS, US GAAP and the accrediting societies. To demonstrate, following are a series of actual emails I have collected, but made anonymous, to demonstrate what has started to happen in our profession:

- "We're appraising a proposed restaurant in ___, and have been asked to provide a going concern value...Has anyone out there done a similar appraisal?...Any thoughts on how to develop a going concern value...and what methodologies to use...?"
- "I am working to develop an...Excel template specifically for gas stations...am curious what other appraisers are using. Anything you are willing to share is greatly appreciated..."
- "I am looking for support for a going concern value...does anyone have anything to support a management fee capitalization rate?"

Continued on next page

expert TIP

The issuance in October 2011 by the Small Business Administration of its SOP 50 10 5(D) governs the performance, by real estate appraisers, of going-concern appraisals of special-use properties in connection with SBA guaranteed loans.

- *"I am appraising the intangible market value of x. Do any of you have a standard approach to their valuation?"*

These requests for help are indicative of a profound lack of competence in this subject area. The danger to the public and the valuation profession of this growing acceptance that proper education, training and experience on matters such as this are now optional cannot be overstated.

Further, on May 15, 2012, RICS-Americas hosted a roundtable of senior business and real estate appraisers from many of the nation's largest financial services firms and lenders from major banks to address this issue and the identified flaws in the qualifying course identified by the SBA.

Course attributes that riled the group included treating real estate value as a residual after deducting value for FF & E and intangibles from the "total assets of the business" and treating cash as an intangible asset (this has been "revised" in current course versions).

What's wrong? How about ignoring USPAP, US GAAP and IVSC standards; failing to apply transactional market behavior and not being supported by observable and verifiable market data; contradicting established appraisal methodologies and requiring business valuation competency that many passing the course will not have.

What has been done? Besides the roundtable, ASA and RICS-Americas sent a jointly signed series of letters in April 2012 to responsible parties at the SBA requesting a meeting to discuss the issue and how that specific Appraisal Institute course could have made it into the revised 2011 SBA SOP without being exposed for public comment and also providing a detailed summary of the problem and proposed solutions from our perspective. When no replies were received, a third letter to a higher SBA authority was sent requesting a meeting. That resulted in a meeting on July 11, 2012 at which time representatives from ASA and RICS-Americas had the opportunity to present the issues I described in detail above.

When no action had been noted nine months later (and numerous courses on separating intangibles from real property had produced scores of real estate appraisers now qualified to perform going concern business valuations for submission to the SBA with loan requests), a follow-up letter was sent on April 22, 2013 more forcefully requesting a status report.

Where are we now? At the time of this writing, no official action has been taken by the SBA. The ASA's government affairs representative, Peter Barash, was told by an inside source that an edit to the SOP was imminent but that the procedure for changes to future SOP's would not be put out for stakeholder comment before becoming official.

For this change to a Federal Agency's SOP that controls qualifications for appraisals submitted for likely billions of dollars of federally insured loan applications to take more than two plus years to correct is unconscionable, especially when the specific edit appears legally suspect and has been vigorously protested from the time it was published.

Between the parties involved, numerous professional standards have been violated, unqualified appraisers with inadequate business valuation capabilities have legally prepared and submitted going concern business valuations for vast amounts of loan dollars, and the valuation profession has likely suffered a huge loss of our most valuable intangible: the public's trust.

I urge members of our profession to follow this matter to a proper conclusion, including monitoring the SBA's response and urging them to be more transparent in their procedures. This is a great opportunity for leaders of our profession to come together to establish the proper qualifications and proper methodologies for valuing single-use or special-purpose properties.

Note: Copies of the letters to the SBA as well as the Appraisal Foundation's recently released Comment Paper and Request for Comment are available at this website: www.valuationproducts.com/featuredarticles.


AUTHOR'S FOLLOW-UP NOTE:

Since writing this column, several important things have taken place.

The SBA issued SOP 50 10 5(f) that:

- eliminates, as of Jan. 1, 2014, the Appraisal Institute course which, if successfully completed, qualified a real estate appraiser to perform SBA-related going concern appraisals of certain special-use properties.
- contains language emphasizing that the real estate component of a going concern valuation must be separately appraised.
- does not put the new SOP out for public comment.
- does not express interest, at this time, in working with the appraisal community to develop best practices.

The Appraisal Foundation's Appraisal Practices Board issued a "Concept Paper and Request for Comment on Valuation Issues in Separating Tangible and Intangible Assets," with comments due by October 31.

The ASA announced a new course on going-concern valuations in conjunction with a new textbook. My bottom line is that all valuation professionals (in all disciplines) should monitor issues such as this that could well impact our profession and speak out for the best and proper practices. 



April 2, 2012

Mr. James Hammersley
Deputy Assistant Administrator, Office of Policy & Strategic Planning
U.S. Small Business Administration
409 3rd Street, SW
Washington, DC 20416

Re: SOP 50 10 5(D): SBA Appraisal Institute Course Requirement For Going Concern
Valuations Of Special Use Properties By Real Property Appraisers

Dear Mr. Hammersley:

The American Society of Appraisers (ASA) and the Royal Institution of Chartered Surveyors (RICS Americas)¹ are writing to express strong opposition to an October 2011 revision to SBA's Standard Operating Procedures (SOP) governing the performance, by real estate appraisers, of going concern appraisals of special use properties in connection with SBA guaranteed loans.² We specifically object to the revision which authorizes real estate appraisers to perform business valuations for special use properties if they successfully complete an Appraisal Institute (AI) course entitled "Fundamentals of Separating Real and Personal Property from Intangible Business Assets". ASA and RICS Americas, whose credentialed members are leaders in both real property appraisal and business valuation, strongly object to this requirement based on our conviction that the valuation methods and approaches being taught to real estate appraisers in the AI course are fundamentally flawed.³ If followed, they likely will lead to erroneous conclusions of value thereby casting doubt on the actual value of property collateralizing SBA backed loans. Accordingly, we respectfully urge immediate suspension of this AI course requirement.

Our organizations also are concerned about provisions of the SOP which direct appraisers performing going concern appraisals to not only identify different categories of a firm's assets, but to separately value the property in each such category.⁴ The essential problem with such

¹ ASA and RICS Americas are the nation's leading multi-discipline professional appraisal organizations representing credentialed valuation experts in the major property categories including business valuation, commercial and residential real estate and machinery, equipment and technical specialties.

² SOP 50 10 5(D).

³ Multiple decisions by state courts or state administrative bodies have voiced frustration with the methodology taught in the AI course, based on their conclusion that the values derived from these methodologies vary greatly from the values found when generally-accepted methodologies are followed.

⁴ One SOP provision dealing with "Appraisal and Business Valuation Requirements" for Commercial Real Estate, states: "If the appraisal engagement letter asks the appraiser for a business enterprise or going concern value, the appraiser must allocate separate values to the individual components of the transaction including land, building, equipment and business (including intangible assets). When the collateral is a special purpose property, the appraiser must be experienced in the particular industry." (Subpart B, Chapter 4 II(C)(1)(g), SOP 50 10 5(D)). Another provision dealing with Business Valuation Requirements – Change of Ownership, states that "The lender may use a going concern appraisal to meet [the change of ownership valuation requirements] if the appraisal allocates separate values to the individual components of the transaction including land, building, equipment and intangible assets." (Subpart B, Chapter 4 II(C)(5) (e)(3)).

requirements is that there are very few, if any, appraisers who hold valuation credentials in multiple property categories (e.g. real estate; intangibles; machinery and equipment; business enterprises) and who are competent, therefore, to value more than one category of property. We fully understand that the going value of many businesses, small and large, includes their ownership of property in multiple asset categories. But, the valuation of such firms requires a team of appraisers representing the appropriate disciplines; and we believe the SOP should require that approach.

To be clear, we believe that real estate appraisers who have the requisite education, training and experience can, under carefully prescribed circumstances, reliably perform going concern appraisals of special use properties. Regrettably, the provisions of the SOP which govern going concern valuations by real estate appraisers fall short in establishing adequate qualification requirements for real property appraisers who wish to perform going concern valuations. Additionally, the SOP fails to provide guidance on when it is or is not appropriate for even a properly trained real property appraiser to perform a going concern appraisal without engaging a business appraiser to value the intangible assets of the firm being valued.

Notwithstanding our concerns, we strongly support SBA's important loan guaranty programs and acknowledge that except for the SOP provisions dealing with going concern appraisals by real property appraisers, the agency's operating procedures governing valuations of collateral for SBA loan guarantees appear to be comprehensive and thorough. We share the agency's belief that in the event of borrower default, the safety and soundness of SBA guarantees largely depend on accurate measures of the fair market value of the tangible and intangible assets collateralizing the loans, as determined by appraisers who have the demonstrated competency to value the relevant categories of assets.⁵

ASA and RICS Americas pledge to work with SBA, with the professional appraisal community and with users of SBA-related appraisal services to address those provisions of the SOP which require revision and/or strengthening.

I. OBJECTIONS TO CURRENT PROVISIONS OF THE SOP

- **The Appraisal Institute Course Is Seriously Flawed And Its Mandated Use Should Be Suspended:** The business valuation and real property valuation leadership of our organizations are convinced that the AI course, which was developed privately without adequate exposure to and comment from the professional appraisal community, teaches a limited and inappropriate methodology for valuing the tangible and intangible assets of special use business enterprises. The valuation principles taught in the AI course are contrary to market practices and are not generally accepted by those who are widely-acknowledged to be the most experienced and expert appraisers of the market value of special use properties. They fail to meet the generally accepted requirements for valuing either business interests or real property interests. These interests are separate and

⁵ The importance of collateral is reflected in the SOP's general requirements for collateral. They state that although a loan request cannot be declined "solely on the basis of adequate collateral," SBA "requires that the lender collateralize the loan to the maximum extent possible up to the loan amount"; and that "if business assets do not fully secure the loan, the lender must take available personal assets of the principals as collateral."

distinct, neither being the residual of the other. This is not just the conclusion of our organizations. It is the conclusion of many of the nation's most experienced and expert appraisers of special purpose properties, some of whom are themselves senior members of the Appraisal Institute.⁶ It is also the conclusion of numerous state courts and administrative bodies which have found the valuation approaches taught in the AI course to be "unduly speculative,"⁷; contrary to "uniformly accepted methodology"⁸; or "unreasonable and unlawful."⁹

- **Completion Of A Single Course – Even One Which Teaches Proper Methods and Approaches – Cannot Provide Real Estate Appraisers With The Valuation Skills Necessary To Perform Going Concern Appraisals of Special Use Properties; Additional Qualifications Should Be Established:** Successful completion of a single course conducted over a day or two – even one which correctly teaches generally accepted valuation approaches and methods – cannot provide a real estate appraiser with the valuation competency necessary to reliably perform going concern appraisals for special use properties. While we believe that a real property appraiser's successful completion of a single course with an appropriate curriculum can be an important component of acquiring the valuation skills necessary to reliably appraise the tangible and intangible assets of special use properties, such courses, by themselves, are insufficient to ensure mastery of the requisite skills. Additional qualifications should be established, one of which might include continuing education requirements taught by professional appraisal organizations which regularly teach the principles and application of going concern and intangibles valuation; and which award business valuation credentials to those with demonstrated competency.
- **Guidance, In The Form Of "Best Practices," Should Be Developed To Establish When A Real Property Appraiser Is Or Is Not Competent To Conduct A Going Concern Valuation Without Associating With A Business Appraiser To Value The Firm's Intangible Assets. Such Guidance Is Essential To Ensure The Integrity of Going Concern Appraisals Of Special Use Properties In Connection With SBA Loan Guarantees:** Just as all businesses are not the same, it is self-evident that differences between one special use enterprise and another can be substantial. For example, the nature and extent of the tangible versus the intangible assets of one company can differ markedly from that of another. Consequently, a going concern appraisal of one small business enterprise may require a different set of valuation skills than the going concern valuation of another, depending, for example, on the type and mix of assets held and the likely impact of each on the overall value of the enterprise as a going concern.

⁶ See, for example, the February 21, 2012, letter to the president of the Appraisal Institute signed by six senior Institute members, a copy of which was sent to SBA.

⁷ Initial Decision and Order, Tennessee State Board of Equalization, Wolfchase Galleria Ltd. Partnership v. Shelby County, tax years 2001-2003.

⁸ Iowa Supreme Court, June 18, 1997, Merle Hay Mall vs. City of Des Moines Board of Review and Merle Hay Mall v. Polk County Board of Review.

⁹ Hillard City Schools Board of Education v. Franklin City Board of Revision, 128 Ohio St. 3d 565, 2011-Ohio-2258.

In some going concern valuation engagements of special use properties, it would be appropriate to rely exclusively on a properly qualified real property appraiser to perform the valuation. However, in situations where the intangible assets of business are a significant portion of the value of that business, best practices would necessitate the use of both a real property appraiser (to value the tangible real property assets) and a business appraiser (to value the intangibles). While the professional appraisal community understands these differences and how they affect the skill-sets necessary to produce a reliable going concern valuation, there is an urgent need for the development of a more formal and comprehensive set of Best Practices that are generally recognized by the entire profession.

Currently, SBA's SOP fails to describe the facts and circumstances under which it is appropriate for a real property appraiser to perform a going concern valuation without associating a credentialed business appraiser; and those situations in which the real property appraiser is not competent to value a business's intangible assets and should, therefore, engage a business appraiser. The development of Best Practices could be incorporated into the text of the SOP or in a separate document referenced in the SOP.

Our organizations, which include both business valuation and real property members, are committed to assisting the professional appraisal community, including the Appraisal Standards Board of The Appraisal Foundation, in the development of such Best Practices. Importantly, this process would benefit from and be accelerated by the stated interest of SBA. Accordingly, we urge SBA to lend its support to and join with us in this important effort.

II. OUR RECOMMENDATIONS TO SBA

- (1) **SBA Should Suspend Operation Of The Current SOP Requirement Relating To the AI Course:** We strongly urge SBA to immediately suspend the operation of its current SOP provision which permits real estate appraisers to perform going concern appraisals for special use properties upon successful completion of an AI course, whose curriculum we and others find to be improper. Without suspending this requirement until the AI course has been corrected, SBA will put itself in the position of requiring real estate appraisers who conduct special use property appraisals for SBA guaranteed loans or who would like to do so, to take and pass a course that many leading experts in the field and many state courts and administrative bodies believe teaches valuation principles that are seriously erroneous and that are likely to produce incorrect and misleading values.

We believe suspension of the current SOP provision is required in the public interest not only because of the consensus among valuation professionals¹⁰ that the current AI course is wrong; but also because the course was never properly vetted. It was not vetted by the professional appraisal community and to the best of our knowledge and belief it was not vetted by SBA or by any independent valuation professionals retained by SBA to conduct a thorough review of the course. In other words, SBA endorsed this course and mandated

¹⁰ Professional appraisal societies, leading practitioners, valuation executives at some financial institutions and at least one Big 4 accounting firm regard the AI course with deep concern.

that it be taken by every real estate appraiser who seeks major SBA-related engagements, based only on the recommendations of the authors of the course and no others. While there may be some eventual disagreement among valuation professionals over what is right and what is wrong about the AI course, there can be no disagreement over the fact that it was not properly vetted to begin with and that highly respected AI members have themselves concluded that “the Appraisal Institute is performing a serious disservice to itself, its members, the general public and to appraisal education by offering this course in its present form.” This conclusion and the growing consensus which supports it should not be ignored by SBA.

It is important to emphasize that suspension of the offending SOP provision while the AI’s course curriculum is revised and other aspects of the SOP are strengthened, will not leave SBA vulnerable to the performance of ongoing concern appraisals by unqualified real estate appraisers. Subpart B of the SOP contains valuation requirements that protect the safety and soundness of SBA loan guarantees. Specifically, it requires that a going concern appraisal be conducted by “an appraiser experienced in the particular industry...” Although there is a need for clarification, this language suggests that a real estate appraiser who has little or no experience valuing the tangible and intangible components of a particular type of special use property is prohibited by the SOP from appraising it for SBA purposes. Also significant is that the SOP’s “Valuation Requirements” make frequent reference to the Uniform Standards of Professional Appraisal Practice (USPAP). The SOP requires that appraisals “must be prepared in compliance with USPAP...” and mandates that appraisers identify the scope of work appropriately based on USPAP. Importantly, every appraiser whose appraisal is compliant with USPAP must meet USPAP’s Competency Clause. This means that in signing a USPAP compliant appraisal, the appraiser certifies and affirms that he or she possesses the knowledge and experience necessary to value a particular type of property, tangible or intangible, and is capable of completing the assignment properly, including compliance with relevant federal laws and regulations. A violation of the Competency Clause by a state certified or licensed real estate appraiser in connection with an SBA assignment would subject that individual to sanctions by his or her state’s appraiser licensing authority. In conjunction with a suspension of the AI course requirement, SBA could affirm that the Competency Clause of USPAP is specifically applicable to going concern appraisals performed by real estate appraisers.

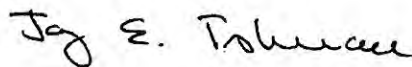
- (2) **SBA Should Encourage And Work With The Professional Appraisal Community To Develop Additional Qualification Requirements For Real Estate Appraisers To Ensure Their Competency To Value The Intangible Assets Of Special Use Business:** Our organizations urge SBA to encourage and work with the community of professional business appraisers and real estate appraisers, to establish educational, experiential and other qualification requirements – beyond the single and flawed AI course requirement which currently exists – for real estate appraisers who wish to value the intangible assets of special use firms. While we believe that properly vetted courses for real estate appraisers can and should be an important component of more comprehensive qualification requirements, the range of skills necessary to value intangible property cannot be acquired simply by completing a single course. In this regard, we believe that

a more robust set of requirements for real estate appraisers should include continuing education from professional appraisal societies which teach, test and award designations to qualified individuals in business appraisal practice. This would ensure that real estate appraisers who seek to value intangible assets of special purpose businesses would be exposed, on a regular basis, to the knowledge and experience of credentialed business valuation experts who regularly teach the relevant valuation principles.

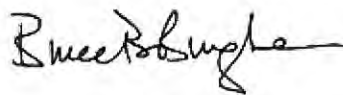
- (3) **SBA Should Encourage and Work With The Professional Appraisal Community To Develop A Set Of “Best Practices” Governing When A Real Estate Appraiser Is Or Is Not Competent To Value The Intangible Assets Of A Going Concern Without Associating A Business Appraiser To Do That Portion of The Engagement:** We believe that the integrity of going concern appraisals in connection with SBA guaranteed loans depends on the development of Best Practices which define when the intangible assets of special use firms can reliably be valued by a properly trained real estate appraiser as opposed to when the expertise of a business appraiser is required. Such protocols need to be established by the professional appraisal community, including its standards setting authority, The Appraisal Foundation, in cooperation with SBA and other stakeholders.

ASA and RICS Americas would greatly appreciate an opportunity to work with you and your colleagues at SBA and with other stakeholders to discuss the concerns expressed in this letter and explore possible solutions. Representatives of our organizations will be contacting you to arrange a meeting at your convenience. In the meantime, if you have any questions or would like to discuss our views in greater detail, please contact Peter Barash, ASA’s Government Relations Consultant (peter@barashassociates.com; 202-466-2221) or John Russell, ASA’s Director of Government Relations (jrussell@appraisers.org; 703-733-2103); or Neil Shah, Managing Director of RICS Americas (nshah@rics.org; 646-786-8352).

Respectfully Submitted,



Jay Fishman, FASA
Chair, Government Relations Committee
American Society of Appraisers



Bruce Bingham, FRICS, FASA
Chair, Valuation Council
RICS Americas

Cc:



April 26, 2012

Mr. James Hammersley
Deputy Assistant Administrator, Office of Policy & Strategic Planning
U.S. Small Business Administration
409 3rd Street, SW
Washington, DC 20416

Re: Second Request for Meeting on SOP 50 10 5(D) – SBA Requirements for Going
Concern Valuations of Special Purpose Properties by Real Estate Appraisers

Dear Mr. Hammersley:

The American Society of Appraisers (ASA) and the Royal Institution of Chartered Surveyors (RICS Americas)¹ are writing to renew our request for a meeting with you to discuss our serious concerns about provisions of the Standard Operating Procedures (SOP) governing the valuation of businesses whose loans are guaranteed by SBA. A request for a meeting was included in an April 2nd letter we sent to you. That letter also described the nature of our concerns about SBA's collateral valuation policies and our recommendations for how the agency, in conjunction with the community of professional appraisers, could address them. We have now been advised by our government relations representatives in Washington, D.C. that you have rejected our request for either an in-person or a conference call meeting.

We appreciate the fact that you and your colleague have engaged in two telephone conversations and have exchanged several brief emails with our government relations representatives concerning the issues raised in our letter. However, we trust you will understand that we do not regard these limited contacts with our government relations team as a satisfactory substitute for a full and fair exchange of views and ideas between SBA and the principals of our organizations who are practicing professional appraisers and who regularly perform going concern valuations of special purpose properties, many of which involve SBA loan guarantees. While we rely on our government relations representatives to inform us of federal developments important to the appraisal profession and advise us on how best to interact with public policy decision-makers, it is the leadership and members of our organizations – the practicing appraisers – who have responsibility for determining whether federal appraisal policies are consistent with the protocols of professional appraisal practice; and, if we conclude they are not, for recommending corrective action that we believe will ensure reliable valuations in federally-related transactions.

As you know from our previous letter, we have serious concerns about the substance of a number of SBA's appraisal provisions; and we are deeply troubled over the apparent lack of transparency in the process at SBA which resulted in the adoption of an SOP provision requiring real estate

¹ ASA and RICS Americas are the nation's leading multi-discipline professional appraisal organizations representing credentialed valuation experts in the major property categories including business valuation, commercial and residential real estate and machinery, equipment and technical specialties.

appraisers who wish to perform going concern valuations of special purpose properties, to complete coursework offered by a professional appraisal organization. To the best of our knowledge, that course was never vetted by SBA or its curriculum exposed to the community of professional appraisers for their review and comments. As a consequence, many of the nation's leading practitioners and a number of state courts and administrative bodies have found serious fault with the course. Equally troubling is that we are now being told that SBA intends to repeat the same closed process (also without any arrangement for proper vetting) in connection with changes that are being made to the SBA-required course.

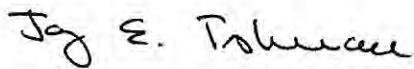
Our organizations are interested only in a constructive and substantive dialogue with SBA. While we hope you will find our positions thoughtful and our recommendations persuasive, we understand that it is impossible to predict the eventual outcome of such a dialogue. Nevertheless, we think it is essential that the dialogue takes place.

We fully understand, as you have explained, that SBA lacks the in-house valuation expertise necessary to analyze our substantive concerns and to recommend corrective changes to current SOP appraisal requirements. Nevertheless, we are convinced that your commitment to and involvement in the process are essential to driving it forward in a timely manner. In this regard, we can assure you that our organizations – and we believe the professional appraisal community, including The Appraisal Foundation – stand ready to work with SBA to address the matters raised in our April 2nd letter.

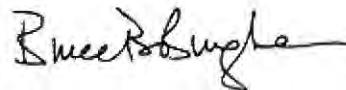
Please advise us, at your earliest convenience, whether you are willing to meet with us – either in person or through a conference call – to discuss our issues. Thank you for your consideration of our request.

Please feel free to contact either of the undersigned directly; or, if you prefer, communicate with Peter Barash, John Russell or Neil Shah, whose phone numbers and email addresses you already have.

Sincerely,



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Cc: Zelaya, Kandace



April 22, 2013

Ms. Jeanne A. Hult
Associate Administrator
United States Small Business Administration
409 Third Street SW, Suite 8200
Washington, DC 20416

Dear Ms. Hult:

This letter is a follow up to the meeting you held with representatives from the American Society of Appraisers and RICS Americas on July 11, 2012 regarding the Small Business Administration ("SBA") SOP 50 10 5(d) ("SOP").

As you may recall, our principal concern was—and continues to be—that Subpart B, Chapter 4, Section IIC(5)(e) of the SOP requires real estate appraisers who are not "qualified sources" under the SOP to successfully complete a course titled "Fundamentals of Separating Real and Personal Property from Intangible Business Assets" as developed and provided by The Appraisal Institute ("AI"). We believe this requirement is inappropriate for the following reasons, among others:

1. contrary to normal practice, the decision to include the proprietary AI course in the SOP was made by the SBA without stakeholder or public consultation;
2. the proprietary AI course involves an important area of business valuation practice (i.e., the valuation of going concerns) in which several other professional appraisal organizations have substantial, longstanding and advanced education programs as well as experienced and highly qualified practicing professionals; and
3. the valuation methods taught in the proprietary AI course are not generally accepted and do not enjoy wide-spread consensus among real property and business valuation professionals.

Currently, it is our understanding that the SBA has taken steps to consider and review our concerns. We are not aware of the specific nature of those steps; however, we appreciate your willingness to address our concerns. Previously, we received unofficial communications from SBA officials that the SBA would take specific actions to address our concerns. To date, we are not aware of any corrective actions taken regarding this matter.

Several weeks ago, we were advised that the SBA would act sometime during the summer of 2013 to revise the SOP including, but not limited to, the revision of the provision to which we object. Given the length of time that this issue has been outstanding and the fact that the objectionable SOP provision remains in place, we hope you will appreciate our increasing concern over when the SBA will take corrective action on this matter.

Accordingly, we respectfully make the following two requests:

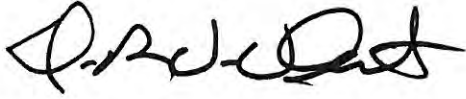
1. please provide a clear timetable for concluding the SOP review process; and
2. please allow our respective organizations—as well as other relevant stakeholders—the opportunity to comment on the proposed changes to the SOP prior to their enactment.

We believe your agreement to the above requests will greatly assist in providing clarity, certainty and transparency for the valuation profession and the general public regarding this important issue.

We thank you for your consideration and wish to take this opportunity to assure you that we are committed and supportive of the SBA as it exercises its mission to strengthen the nation's economy.

Ms. Jeanne A. Hult
April 22, 2013
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Best regards,



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