**The Steps of an SBA Environmental Investigation**

This chart represents the minimum steps of environmental investigations of commercial properties required by the U.S. Small Business Administration’s updated SOP 50 10 5(G), effective October 1, 2014, for lender and certified development company (CDC) loan programs. More stringent due diligence may be warranted based on the lender or CDC’s policies and prudent lending practices. Note that the SBA also requires that certain “special use facilities” (e.g., properties constructed before 1980 that will be used for daycare, nursery schools, or residential care facilities occupied by children) undergo lead risk assessments for lead-based paint and testing for lead in drinking water.

1. Determine NAICS codes for current and known past uses of the property, then compare these codes to the SBA list of codes for environmentally sensitive industries. Code matching applies to all properties except units in a multi-unit building (which are tested as if there is no NAICS code match).

2. NAICS code beginning with 447 (gas stations). See Appendix 5 of the SOP for detailed requirements, including equipment testing, that apply to current and former gas station properties.

3. If on-site dry cleaners have ever been in operation for more than five years at the property, SBA requires a Phase II ESA (in addition to a Phase I) as part of the environmental investigation.

4. If the questionnaire reveals the need for further investigation, lender or CDC must obtain at least a Records Search with Risk Assessment. If the current owner or operator will not sign the questionnaire, the lender must obtain a Transaction Screen.

5. Search of databases listed in the EPA’s AAI rule, search of historical-use records (e.g., fire insurance maps, city directories, aerial photos) for the property and adjoining properties, and an EP risk assessment. (EDR’s LoanCheck Plus report meets each of these requirements.) If “elevated risk” or “high risk” is assessed, lender or CDC must obtain at least a Phase I ESA.

6. Phase I environmental site assessment. (See Appendix 2 of the SOP for SBA definitions of the Phase I ESA and other environmental terms.) If the Phase I concludes further investigation is needed (typically a Phase II), the lender or CDC must proceed as recommended by the EP or, alternatively, submit the results to the SBA and seek concurrence for not following the EP’s recommendation, providing a rationale for the “rare instance” when an exception may be warranted.

7. As with gas stations, Phase IIs conducted for dry cleaner properties must be conducted by an independent environmental professional who holds a Professional Engineer’s or Professional Geologist’s license and has three years of relevant experience. If the Phase II reveals contamination and lender or CDC still wishes to make the loan, lender or CDC must ensure EP documentation of contamination levels as well as remediation requirements, cost, and schedule.

8. Lender or CDC must submit results of the investigation to the SBA with recommendations and seek SBA concurrence.

9. Submit recommendation discussing factors identified in subparagraph g, “Approval and Disbursement of Loans When There is Contamination or Remediation at the Property.”

For comprehensive guidance about SBA’s environmental requirements, lenders and CDCs should refer to the full text of SBA SOP 50 10 5(G), including appendices.

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For more information about SBA’s revised environmental requirements, visit www.ednet.com/sba or contact your EDR representative at 800-352-0050.
The environmental due diligence requirements for SBA loans established by the revised SOP 50 10 5(G) (effective October 1, 2014) includes an initial NAICS code matching step which applies to all properties except units in a multi-unit building.

Lenders must make a good-faith effort to determine the NAICS code(s) for the property’s current and known prior uses. Each NAICS code is then compared to SBA’s list of such codes for environmentally sensitive industries, which is reproduced on this page from SOP 50 10 5(G) Appendix 4.

If there is a NAICS code match, the environmental investigation must begin with a Phase I environmental site assessment. If there is no NAICS code match, the environmental investigation may begin with less stringent due diligence steps such as a questionnaire or questionnaire and records search with risk assessment, depending on the loan amount. (Note: For current and former gas station properties [NAICS Code 477], refer to SOP 50 10 5(G) Appendix 5 for specific requirements.)

For authoritative guidance about SBA’s environmental requirements, lenders seeking SBA’s guaranty should refer to the full text of the SBA’s SOP 50 10 5(G), including relevant appendices. For more information about North American Industry Classification System (NAICS) codes, visit www.naics.com.

How to determine if an industry is included on the list of environmentally sensitive industries:

A 3 digit NAICS code includes all industries beginning with those 3 digits.
A 4 digit NAICS code includes all industries beginning with those 4 digits.
A 5 digit NAICS code includes all industries beginning with those 5 digits.
A 6 digit NAICS code includes only that industry under that industrial code.

SBA SOP 50 10 5(G) NAICS Codes of Environmentally Sensitive Industries

211 Oil & Gas Extraction
212 Mining (except oil & gas)
213 Support Activities For Mining
237 Heavy & Civil Engineering Construction
311 Food Manufacturing (if underground fuel tanks present)
312 Beverage & Tobacco Product Manufacturing
313 Textile Mills (not required if sewing, weaving, or hemming only)
314 Textile Product Mills (not required if sewing, weaving, or hemming only)
316 Leather & Allied Product Manufacturing
321 Wood Product Manufacturing (if finishing occurs on-site)
322 Paper Manufacturing
323 Printing & Related Support Activities
324 Petroleum & Coal Products Manufacturing
325 Chemical Manufacturing
326 Plastics & Rubber Products Manufacturing
327 Nonmetallic Mineral Products Manufacturing
331 Primary Metal Manufacturing
332 Fabricated Metal Product Manufacturing
334 Computer & Electronic Product Manufacturing (not required if assembly only)
335 Electrical Equipment, Appliance & Component Manufacturing (not required if assembly only)
336 Transportation Equipment Manufacturing
337 Furniture & Related Manufacturing (if finishing occurs on-site)
339 Miscellaneous Manufacturing (only required if hazardous materials are involved)
42311 Automobile & Other Motor Vehicle Merchant Wholesalers (if service bays present)
42314 Motor Vehicle Parts (Used) Merchant Wholesalers
4235 Metal & Mineral Merchant Wholesalers
42393 Recyclable Material Merchant Wholesalers
4246 Chemical & Allied Products Merchant Wholesalers
4247 Petroleum & Petroleum Products Merchant Wholesalers
441 Motor Vehicle and Parts Dealers (if service bays present)
447 Gasoline Stations
45431 Fuel Dealers (not required for propane or firewood dealers)
481 Air Transportation
482 Rail Transportation
486 Pipeline Transportation
53212 Truck, Utility Trailer, and RV (Recreational Vehicle) Rental & Leasing (if repairs, maintenance or vehicle washing is performed on-site)
53241 Construction, Transportation, Mining & Forestry Machinery & Equipment Rental & Leasing (if repairs, maintenance or vehicle washing are performed on-site)
53249 Other Commercial & Industry Machinery & Equipment Rental & Leasing (if repairs, maintenance or vehicle washing are performed on-site)
54138 Testing Laboratories
56171 Exterminating & Pest Control
562 Waste Management & Remediation Services
6221 General Medical & Surgical Hospitals (if fuel tanks are present)
71391 Golf Courses & Country Clubs
71392 Skiing Facilities
71393 Marinas
7212 RV (Recreational Vehicles) Parks & Recreational Camps (if fuel tanks are present or if vehicle repairs or maintenance is performed on-site)
8111 Automotive Repair & Maintenance (except for “car wash only” facilities, for which a Transaction Screen is an acceptable starting point.)
8112 Electronic & Precision Equipment Repair & Maintenance (not required if assembly only)
8113 Commercial & Industry Machinery & Equipment Repair & Maintenance
8122 Death Care Services
8123 Laundry & Dry Cleaning Services (if dry cleaning operations have ever existed on-site)
812921 Photo-finishing Laboratories (except one hour)
812924 Photofinishing Laboratories (except one hour)

A Phase I should always be obtained if the business sells, supplies or dispenses fuel, gasoline or heating oil, even if the NAICS code for the business is not identified on this list of environmentally sensitive industries.

For more information about SBA’s revised environmental requirements, visit www.edrnet.com/sba or contact your EDR representative at 800-352-0050.