

The SBA 504 FMLP Program

Why is it important for Congress to include The First Mortgage Loan Pooling (FMLP) program into any SBA 504 provisions to the CARES Act or subsequent legislation?

In 2009 as part of the American Recovery and Reinvestment Act, FMLP helped to jump start the secondary market for the first mortgage loans made in conjunction with SBA 504 Certified Development Company loans. The ability to sell loans into this secondary market provides liquidity to those lenders that want to partner with a Certified Development Company to provide real estate and fixed asset financing to small businesses. This will bring much-needed help to struggling small businesses. The guarantee will ensure that third-party lenders continue to fund small business commercial property loans – if third-party lenders are not lending then the SBA 504 program ceases to exist.

What is FMLP?

Under the program, the SBA provides a government guarantee on pools of portions of eligible 504 first mortgage loans assembled by approved pool originators who sell them to third-party investors. Lenders retain at least 15 percent of each individual loan, pool originators assume 5 percent of the risk, and the SBA guarantees the remaining 80 percent.

Typically, a 504 project includes three elements: a loan (or first mortgage) secured with a senior lien from a private-sector lender covering up to 50 percent of the project cost, a second mortgage secured with a junior lien from a Certified Development Company (backed by a 100 percent SBA-guaranteed debenture) covering up to 40 percent of the cost, and a contribution of at least 10 percent equity from the small business borrower. Brokers, or pool originators, purchase portions of the first mortgages, package and sell them on the secondary market.

The first FMLP program (which effectively ran for 6 short months) guaranteed approximately \$747MM worth of 504 first liens. At an 80% guarantee, that equates to roughly \$933MM – or almost \$1B in the gross interests of 504 first liens.

Why reinstate FMLP now?

We need to reinstate FMLP now because the conventional lending markets are shut down. This means that Third Party Lenders will walk away from loans already in the pipeline and scheduled for closing and will not originate new SBA 504 loans.

How will FMLP help businesses most affected by Covid-19?

FMLP combined with the other SBA 504 program enhancements will incentivize Third Party Lenders to participate in 504 loans to industries that are considered toxic to most lenders now like hotels and restaurants. The effects will be immediate. Without it these businesses will continue to starve.

How much will FMLP cost taxpayers?

Nothing. FMLP is a zero-subsidy program for taxpayers. There is an existing play book so the program can be restarted immediately and there is 10 years of pay history for the bonds issued during the first iteration. These bonds have performed exceptionally well. As a matter of fact, the data shows that the SBA made \$15.6 million over the 10 years since the program was last implemented.