

**SBA Project Plan**  
**Section 503: Secondary Market 504 1<sup>st</sup> Mortgage Guarantees**

**July 29, 2009**

**PROGRAM PURPOSE**

The SBA’s 504 loan program helps small businesses obtain long-term financing for fixed asset projects. Financing for the total project cost typically comes from three sources: 1) borrowers provide 10 percent in equity, 2) Certified Development Companies (CDCs) provide a loan (funded by a debenture that is fully guaranteed by SBA) for 40 percent of the project cost, and 3) a private lender provides an unguaranteed loan for the remaining 50 percent. Sometimes the private lenders who provide these “first mortgage” loans then sell them into a secondary market, but the recession has dramatically slowed this secondary market activity, which makes it more difficult for these projects to get the necessary financing. The Recovery Act will provide a process for private entities to apply for guarantees on pools of 504 first mortgages, for a fee.

**PUBLIC BENEFITS**

By creating more attractive, Federally-backed 504 1<sup>st</sup> mortgage pools in the secondary market, the SBA will improve liquidity so that banks and lenders will be able to continue providing even more 504 loans. In turn, increases in the number and amount of 504 loans will help small businesses grow and expand through capital improvements, construction and major equipment purchases.

**PROGRAM DETAILS**

- SBA will provide a Federal guarantee on pools of 504 first mortgages.
- SBA will establish a process for entities to apply for guarantees on these pools.
- SBA will appoint a director to oversee this program.
- SBA will charge fees on the 504 first mortgage pools that will cover the costs of the program.

<b>QUICK PROJECT FACTS</b>	
<b>Project Description</b>	Establish a Secondary Market Guarantee Authority
<b>Appropriated Funds</b>	There is no associated funding for this program; the Recovery Act requires that subsidy costs be covered by user
<b>Implementation Timeline</b>	2/17/09 – 7/31/09
<b>Program Level</b>	\$3 billion through September 30 <sup>th</sup> , 2010.
<b>Program Sunset</b>	2/17/11
<b>RESOURCES</b>	
<b>Exec. Sponsor</b>	Eric Zarnikow
<b>Team Lead</b>	Jim Hammersley
<b>Offices Involved</b>	OPP, OFO, OCA, OGC, OCIO, M&A, OCFO, PMO, OCPL, ORM, OHCM <sup>1</sup>

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<sup>1</sup> See Glossary of Office Names

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**PROJECT PLANS**

Milestones for this project are listed below. Progress will be measured against the planned delivery dates. The due dates listed below for notices and other major documents to be issued by the Agency incorporate a two to three week period between the initial drafting of the document and final clearance and publishing. During that period, the document must be cleared by all major offices in the Agency and by OMB.

<b>Milestones (Accountable office[s])</b>	<b>Due Date</b>	<b>Status</b>	<b>Comments</b>
<b>Planning Phase</b>			
Form team and determine strategy and program structure	3/27/09	Complete	
Develop credit subsidy model	3/31/09	Complete	
Complete Initial Risk Assessment (ORM, Workgroup)	4/30/09	Complete	
Agreement with Lenders/Registered Holder (Workgroup)	6/1/09	Delayed	Revised Date: 6/5/09 6/30/09 7/31/09 8/31/09
Develop Risk Mitigation Plan (ORM, Workgroup)	6/1/09	Complete	Developed 7/15/09
Complete Communication Plan (OPP)	6/1/09	Delayed	Revised Date: 6/30/09 7/31/09 8/31/09
<b>Execution Phase</b>			
Submit Final Regulations for OMB Approval	6/5/09	Delayed	Revised Date: 6/30/09 7/31/09 8/31/09
Implement System changes (OCIO)	6/30/09	Delayed	Revised Date: 7/31/09 8/31/09
Establish Secondary Market Authority Office (OHCM, OCA)	6/30/09	Delayed	Revised Date: 7/31/09 8/31/09
Appoint Program Director (OHCM, OCA)	6/30/09	Delayed	Revised Date: 7/31/09 8/31/09
Notification/outreach to lenders (OCPL)	6/30/09	Delayed	Revised Date: 7/31/09 8/31/09
Publish Final Regulations (OPP)	6/30/09	Delayed	Revised Date: 7/31/09 8/31/09
Implementation of Secondary Market Guarantee	6/30/09	Delayed	Revised Date:

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Authority (Workgroup)			7/31/09 8/31/09
Implement close out plan	TBD		
<b>Evaluation Phase</b>			
Monthly report to Congress	3rd of Month	Ongoing	
Monitor program performance (OCFO, PMO, Steering Committee, Workgroup)	2/17/11		

Dates in the chart above are subject to change based on final policy decisions and external factors. These factors may include the need to execute third-party contracts; recruit, hire and train additional staff; obtain necessary external approvals; and create or modify required systems. Project Plans will be re-baselined and updated as necessary.

**TRANSPARENCY AND ACCOUNTABILITY**

To report progress on the implementation of this project, SBA will regularly update the Milestones table set forth above to report on the status of milestone attainment. Updated Project Plans will be published on SBA’s Recovery web site: <http://www.sba.gov/recovery/agencyplans>.

In addition, SBA will generate a Program Performance Overview Report, which will contain detailed financial and performance information pertaining to all SBA Recovery Act programs. Information contained in the Program Performance Overview Report will be updated periodically and published on SBA’s Recovery web site.

SBA will also report the following information to Congress by the 3<sup>rd</sup> of each month:

<b>Measures for 503</b>	<b>Current Month</b>	<b>Year to Date</b>
Total amount of guarantees extended		
Total amount of guarantees outstanding		
Defaults		
Payments on defaults		
List of purchasers found to have misused guarantees		

**MONITORING AND EVALUATION**

The SBA developed an agency-wide framework to ensure timely and effective implementation of Recovery Act projects to support America’s small businesses. The SBA Recovery Act Steering Committee, comprised of senior SBA leadership, meets every week to review, evaluate and assess the status and results of each SBA-related Recovery Act project.

The Secondary Market Guarantee project is managed by a team. Project teams, which meet several times each week, and supporting offices are held accountable for on-time completion of

project milestones and deliverables. Project teams also meet regularly with the Performance Management Office to track metrics and milestones, which are reported weekly to the Steering Committee.

The Steering Committee reviews reports to identify:

- Progress made toward each project milestone
- Factors that have the potential to slow implementation or decrease effectiveness
- Effectiveness of each project measured against expected outcomes
- Success of any implemented adjustments made to strategies, services and project
- Effectiveness of risk mitigation strategies

#### **BARRIERS TO EFFECTIVE IMPLEMENTATION**

- Challenges related to creation of entirely new program
  - new systems and business processes
  - new regulations
  - new legal agreements with participants
- Effectively marketing the program to targeted participants
- Timeframe to procure necessary services
- Uncertainty regarding attractiveness of programmatic terms to targeted participants

#### **GLOSSARY OF OFFICE NAMES**

CLA	=	Office of Congressional & Legislative Affairs
DFC	=	Denver Finance Center
M&A	=	Office of Management & Administration
OCA	=	Office of Capital Access
OCFO	=	Office of the Chief Financial Officer
OCIO	=	Office of the Chief Information Officer
OCPL	=	Office of Communications & Public Liaison
OCRM	=	Office of Credit Risk Management
OED	=	Office of Entrepreneurial Development
OFA	=	Office of Financial Assistance
OHCM	=	Office of Human Capital Management
OFO	=	Office of Field Operations
OGC	=	Office of General Counsel
OPGM	=	Office of Procurement & Grant Management
OPP	=	Office of Policy & Strategic Planning
ORM	=	Office of Risk Management
PMO	=	Performance Management Office