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Government Loan Solutions' CPR Report

Providing the most detailed monthly SBA 7(a) and 504 prepayment, default and market information

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Bob Judge, Government Loan Solutions, Editor

Bob Judge is a partner at Government Loan Solutions.

Government Loan Solutions is a provider of valuation services, prepayment analytics and operational support for the SBA marketplace.

Bob has 25 years of experience in the fixed income markets. He holds a B.A. in Economics from Vassar College and an M.B.A. in Finance from NYU Stern School of Business.

INSIDE THIS ISSUE:

Special points of interest:

- Prepayments Stay Below 7%
- SMA Update: 504 versus 7a
- Default Rate Rises Slightly
- Value Indices Mostly Higher

Prepayment Speeds Rise Slightly, But Remain Below 7%

March continued the steady stream of good news on the prepayment front, with overall speeds remaining below 7% for yet another month.

While prepays did rise by 11% in March, overall speeds came in at 6.40%, a very attractive level by historical standards.

While we are always pleased to see speeds below 10%, a new normal of sub-8% prepayments has taken hold over the past year. For how long this will remain no one knows, but until we see voluntary prepayments rise, single-digit speeds are the expectation.

For the fifth month in a row, the Default CPR remained below 4%, while the voluntary prepay CPR stayed below 3%. With defaults continuing their movement towards more normalized levels, overall speed increases will only come

Continued on page 2

SMA Update: Why Aren't 504 Premiums as High as 7A?

By Jordan Blanchard

When lenders first hear about the FMP program, they automatically assume the premiums will be similar to 7A or B&I. This is not normally the case for many of the following reasons:

Newness Of The Program…

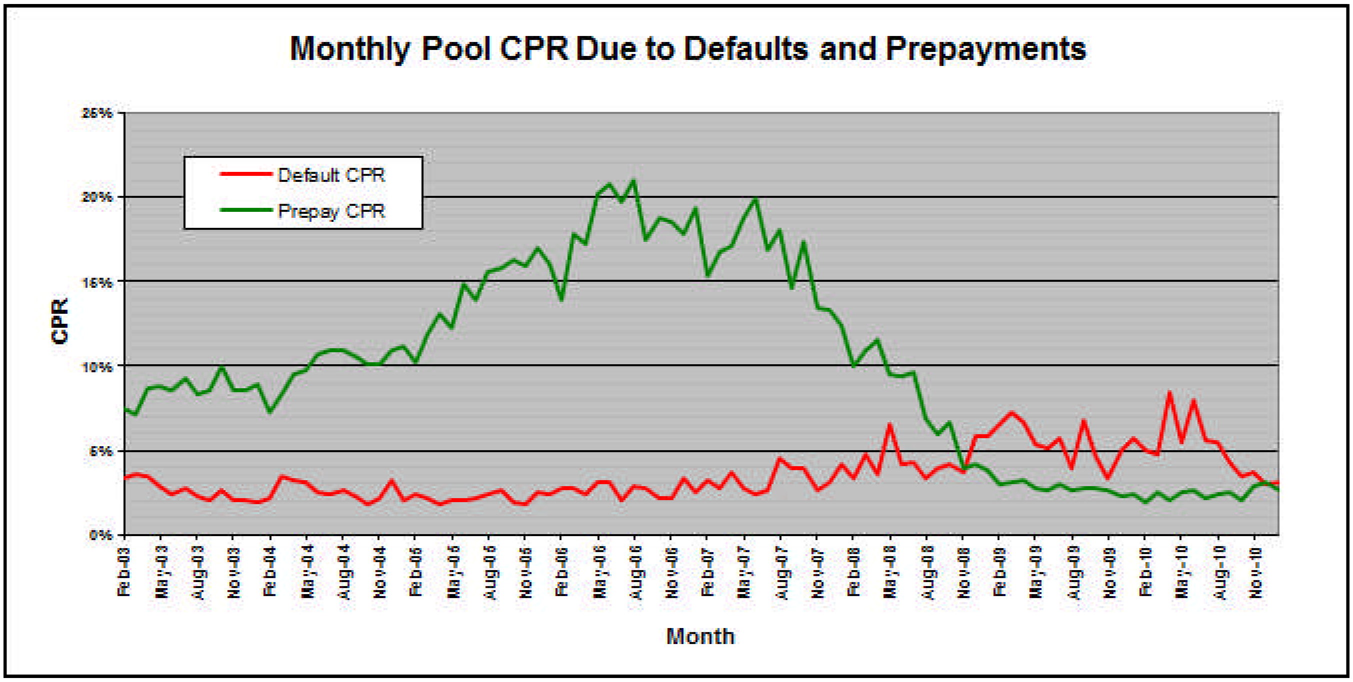
SBA 7A and 504 certificates have been trading for 30+ years. Investors are very familiar with these assets. FMP has been trading for six months. The FMP certificates are different enough that it takes re-educating potential investors, and that process takes time.

Program Length…

Because this is a temporary program (through September 2012), many broker-dealers and investors do not want to take the time to learn about the new program. Let's hope that SBA and Congress will consider extending the program to justify the investment of time and energy by the industry.

Continued on page 4

PREPAYMENT SPEEDS...CONTINUED



from voluntary prepayments in the future.

Turning to specifics, defaults ticked up by 23% to 3.78% from 3.06% the previous month. While a 20%+ increase is significant, defaults still remain below the 6% to 8% range of the Great Recession. Due to the fact they have fallen so precipitously over the past 9 months, a correction is not surprising. As for voluntary prepayments, they fell by 2% to 2.62%, remaining below 3% for yet another month.

As for next month, preliminary data from Colson suggests another slight increase in overall prepayments, but they should remain below 7%.

The YOY comparison to 2010 continues to show 2011 significantly below last year, with YTD prepayment speeds in 2011 at 6.09% versus 2010 at 7.40%.

Turning to the default/ voluntary prepayment breakdown, the **Voluntary Prepay CPR** (green line) fell from 2.68% in February to 2.62%.

While the VCPR remained below 3%, the **Default CPR** (red line) rose last month, reaching 3.78% from 3.06% in February.

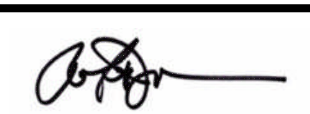
Last month, prepayment speeds fell in one out of the six maturity categories. The only decrease was seen in the 8-10 maturity bucket, which fell by 26% to CPR 7.41%.

Increases were seen, by order of magnitude, in the <8 sector (+72% to CPR 10.25%), 16-20 (+46% to CPR 8.43%), 10-13 (+19% to CPR 7.63%), 20+ bucket (+9% to CPR 5.47%) and 13-16 (+2% to CPR 5.62%).

For March, no surprises. Yet another month of low prepayment speeds when compared to historical levels.

For further information on the terminology and concepts used in this article, please refer to the "Glossary and Definitions" at the end of the report.

Data on pages 19-20



Bob Judge can be reached at (216) 456-2480 ext. 133 or bob.judge@glsolutions.us

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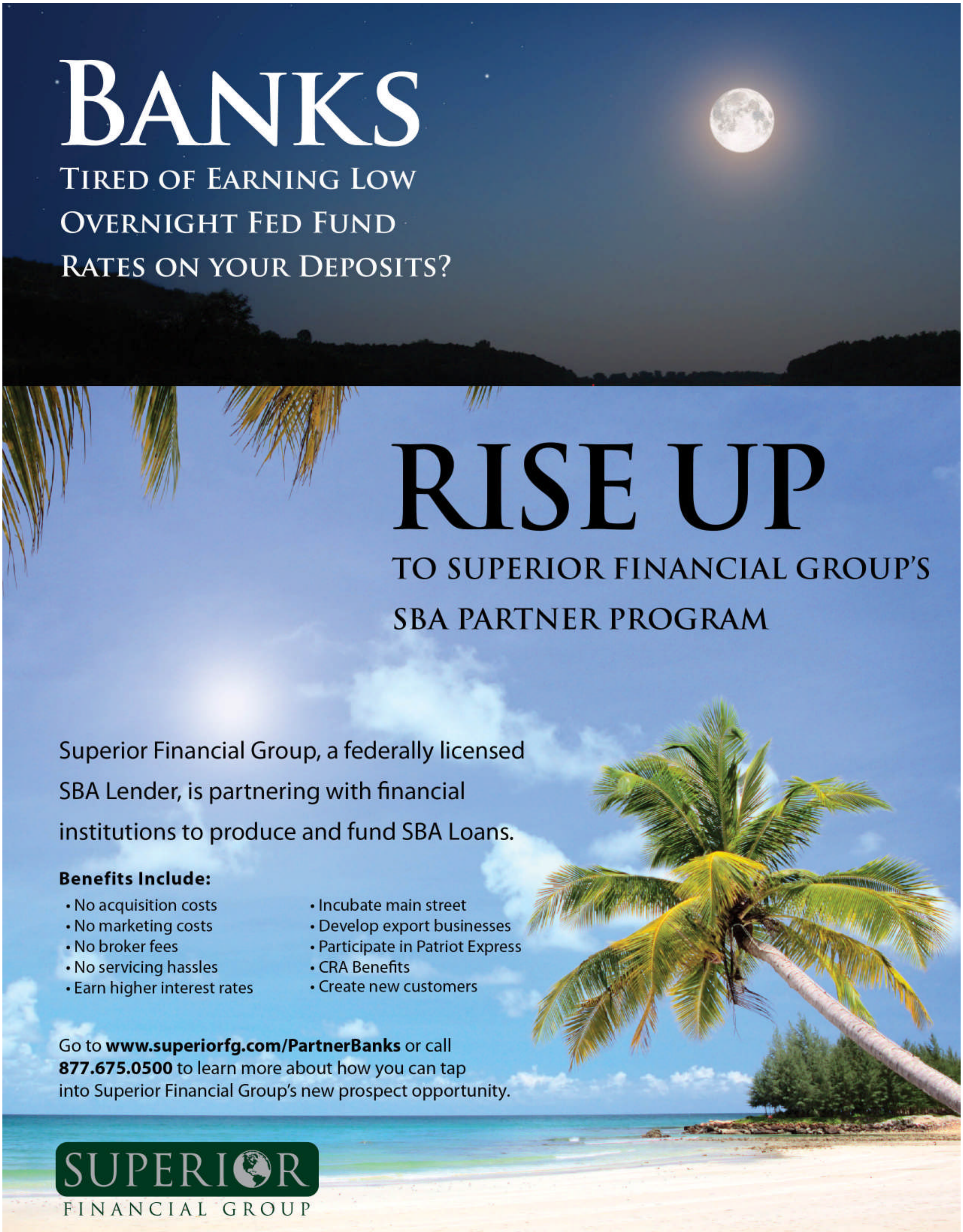
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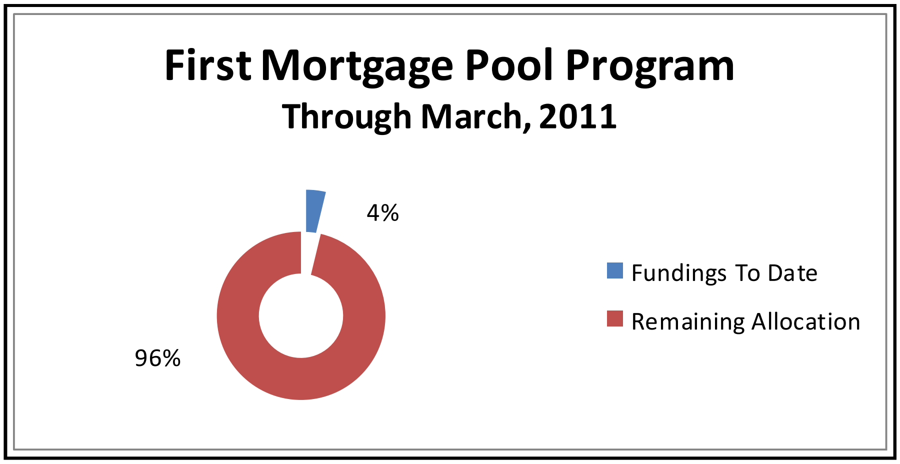
Secondary Market Access...Continued

SBA could at least give a short extension to the program by changing the eligibility criteria from Debenture-Funded date to Debenture-Approved date. Congress could temporarily or permanently extend the program at some point in the future, something that is justified by the zero subsidy requirement mandated as part of program. But for now, program length is limiting potential investors.



Liquidity…

The SBA 7A program funds and trades roughly $15B per year. The 504 Debenture program funds and trades roughly $4B per year. The FMP program is funding an average of less than $10MM per month. Investors are concerned that if they purchase the guaranteed certificate in an FMP pool, there may not be an active market for which to resell the certificates. This limits the amount of premium investors are willing to pay up front.

Two other issues affect program liquidity:

1. The certificates are not currently eligible for Depository Trust Company (DTC) eligible. This means that when an investor seeks to sell an FMP certificate, the actual physical certificate must be sent to the new buyer. That slows the sales process by 3 to 4 days. It doesn't sound like much, but in a world where virtually all trades happen instantly and electronically, a delay of a number of days is significant.

2. The pools are not currently reported on Bloomberg. This makes it difficult for traders to track the asset and provide this information to the potential new buyer.

SBA is working on both of these issues, but it would help the liquidity and overall program volume if these issues are remedied as soon as possible.

FMP Loan Pools Are Irregular…

A 7A loan pool almost always has the same characteristics: based on Prime, with a similar spread range, quarterly adjustable, similar retained servicing, similar term of loan, no balloon payments, etc. Also, 7A pools tend to be larger and more diversified, usually $10MM+ and made up of 15 to 25 loans per pool. In addition, the maximum 7A loan is set at $5MM.

FMP pools are all over the board. FMP pools can be fixed or adjustable, or a mixture of both. Adjustable rate pools can be daily, quarterly, annually or longer adjustable. Fixed rate pools might be fixed for a full 25 years, or have a balloon at the end of 10 years. Some FMP loans have prepayment penalties, others do not. All FMP pools must be of the same index, and there are a number of different indices used by lenders, including Prime, LIBOR (can include LIBOR Swap), FHLB, CMT, etc. Unlike 7A, there is no maximum first mortgage size. It's possible to have a two-loan pool made up of a $7,000,000 first mortgage and a $700,000 first mortgage.

Irregular pools lead to small pool sizes both in terms dollar volume and number of loans. The lower the number of loans in a pool, the more likely an investor is to lose premium paid if one or more loans default.

Selling To A Pool Originator…

A 7A or B&I sale involves the selling bank selling through a broker-dealer to an end investor. There is no middleman. But when a bank sells an FMP loan to a Pool originator, that pool originator must purchase an unguaranteed 5% interest in the loan pool. That 5% interest cannot be sold, pledged, or participated. To help offset this out of pocket cost to the, Pool originators will retain some of the premium. This reduces the net premium paid to the selling lender.

Lack Of An Interest-Only Strip…

One of the biggest reasons FMP premiums are not as high as 7A premiums is the lack of an interest-only-strip. Interest only strips on 7A pools allow more conservative investors to purchase pools at par (currently around Prime - 2.65%) and accept the resulting lower return. The remaining interest is then sold to more risk-tolerant investors, such as hedge funds. The interest-only portion is riskier because if a loan prepays early, the premium paid on that loan is lost. But interest-only investors are willing to take on this extra risk in exchange for potentially higher returns.

Continued on next page

Secondary Market Access...Continued

The interest-only-strip option is not available for FMP pools, so FMP broker-dealers are forced to try and find investors who are willing to pay high premiums, which is not always the easiest task. This leads to a reduced number of overall investors, less competition, and resulting lower premiums.

SBA could, if it chooses, develop an interest-only-strip option for FMP pools. SBA is most likely reluctant due to the potential short term nature of the program. But it is safe to say that if this change were instituted, premiums would rise and so would overall interest in the program.

So Is It All Gloom & Doom?

Of course not. The secondary market for SBA 504 loans has never been better – even during the time period when there were 7 secondary market buyers. Currently, a lender can choose to sell the entire first mortgage to Zions or Morgan Stanley or sell 85% of a loan to a pool originator such as Bank of America/Merrill Lynch or Credit Suisse First Boston through the FMP program.

Zions currently caps its premium at 6%. Selling to a pool originator will typically yield up to 6% in premium plus 50 basis points in servicing on the sold portion – an option not normally available for whole loan sales. The combination of selling for premium and servicing means that selling an FMP loan is more profitable, over the long term, than selling a whole loan with servicing released.

Whole loan sales allow a bank to realize all of the fee income in the month of funding with potentially no capital outlay whatsoever (if the loan is direct funded). FMP sales allow the selling bank to maintain the business relationship with the borrower (as the sale is transparent) while diversifying most of the risk. By far the biggest advantage of the FMP program is a much wider credit box. In addition to all multi-purpose property types, special purpose properties such as hotels, gas stations, convenience stores, car washes, etc. are acceptable. And FMP underwriting is more lenient as it relates to loan amount (larger loans are ok), cash flow, FICO, LTV, etc.

Another advantage of an FMP loan is the much lower allocation of capital per transaction. A 7A loan will typically finance up to 90% of the project costs, 25% of which is not guaranteed. Total unguaranteed dollars committed per 7A transaction is typically 22.5% of the project costs (25% X 90%). FMP, on the other hand, requires only 15% of a typical 50% first mortgage, or 7.50% of the transaction cost.

It is highly doubtful that 504 lending will ever be as profitable as 7A lending, but that is not the point. An active 504 lending program adds incremental profit to the lending institution that is most likely unmatched by any other product offering available to the lender. Two programs are better than one.

So What Can A Bank Do To Increase Income On FMP Sales?

Regardless of the interest rate charged, only so much premium will be paid by the investor. So what can a bank do to capture more of the value? The most important thing is to determine the servicing fee threshold for True Sale accounting under FAS 166 accounting guidelines.

Banks have already determined that 100 basis points in servicing on SBA 7A loans is acceptable for FAS 166 purposes, which also happens to be the minimum allowed in the Program. The FMP program requires only 50 basis points in servicing. So will the financial accounting industry adhere to the precedent of what is acceptable to service a 7a loan and allow a 100 basis point servicing fee for 504 loans? Or will allowable servicing for FMP loans be reduced to the minimum of 50 basis points? At least one bank has determined that 100 basis points is an acceptable servicing fee for an FMP loan, but more institutions need to research this option before a consensus can be reached.

If a bank can achieve true sale accounting at 100 basis points in servicing, then the bank will be in a good position to double the servicing income at potentially no reduction in the premium once the premium cap has been reached.

Volume

The total FMP volume through March, 2011, stands at $112,857,813. There have been 13 pools issued to date with an average of just under $9,000,000 per pool.

March's volume was $2,093,676 comprised of 1 pool.

With over $2.8B remaining, allocation is not an issue at this time.

FMP Tips…

Take out commitments for construction loans are now available from at least one pool originator. But the commitment is conditional (among other things) the loan being poolable. That means that construction would necessarily have to be completed by May or June of 2012 in order to pool the loan by the September, 2012, program termination date (if the FMP program is not extended).

Please contact Jordan Blanchard (jblanchard@cdcloans.com or 866-938-4232) if this is of interest to you.

Continued on next page

Secondary Market Access...continued

Secondary Market Access

Secondary Market Access (SMA) is a network of CDC's and financial companies whose main goal is to provide secondary market solutions for 504 first mortgage lenders.

Our website can be found at **www.SMA504.com**.

Our Role

SMA has a solution for every lender need related to the new program, including:

- Sale of the 85% participation interest for premium and servicing income.
- Sale of the 80% participation interest for those banks who desire to be the Seller and the Pool Originator.
- Sale of the whole loan in situations where the lender is unable to retain any long term portion.

Who we Are

GLS is a leading consulting, outsourcing and financial asset valuation company to the small business lending community. GLS is a nationwide leader in the valuation of small business loans, servicing rights and securities. For more information about our services, please contact us at (216) 456-2480, or at info@glsolutions.us.

Non-Traditional 504 Loan Referral Program

If you have a 504-eligible transaction that you are unable to fund for whatever reason, GLS can match you with another, non-competing lender looking to fund non-traditional 504 loans. This allows you to earn referral fees, while preserving the business relationship with the borrower.

Program Overview:

- ⇒ **An outlet for those transactions that you typically would not fund.**
- ⇒ **All commercial property types are eligible.**
- ⇒ **Can accommodate projected income and inferior credit.**
- ⇒ **Loan amounts up to $10 million with 30-year loan terms.**
- ⇒ **Rate terms are quarterly adjustable, with a 5-year fixed rate option available.**
- ⇒ **A referral fee for you on the first mortgage portion.**

For more information, please contact Bob Judge, GLS, at (216) 456-2480 ext. 133 or at bob.judge@glsolutions.us.

SECONDARY MARKET ACCESS

SMA

WWW.SMA504.COM

"The source for accessing the SBA 504 Secondary Market Pooling Program."

Providing expertise in all areas of the new SBA 504 First Lien Pool Guaranty program, including:

- **Pricing bids for existing loans**
- **Pricing strategies for new loans**
- **Accepting loan tapes for bid on 85% of eligible loans**
- **Whole loan sale option**
- **Assistance with becoming a Pool Originator**

If you are 504 lender and wish to discuss how we can help you access the 504 secondary market, please contact:

- **Rob Herrick, GLS, at (216) 456-2480 ext. 144 or via e-mail at rob.herrick@glsolutions.us**

SECONDARY MARKET ACCESS

504 FMLP Rate Guidance - 85% Loan Interest Sale

Applies To New Loans Only. Existing Loans Custom Quoted

NEW LOANS ONLY	90 Day Adjustable (LIBOR) PAR RATE = 3 Mo LIBOR + spread calculated below			Quarterly Adjustable (Prime) PAR RATE = WSJ Prime + spread calculated below			3 Yr Fixed PAR RATE = 3-yr Swap + Spread Resets: Q at 3-Mo. Libor + Spread		
Credit	Multi	Hosp	Other SP	Multi	Hosp	Other SP	Multi	Hosp	Other SP
Base	+ 2.950%	+ 3.050%	+ 3.700%	+ 0.450%	+ 0.600%	+ 1.050%	+ 3.400%	+ 3.600%	+ 4.200%
LTV > 55%	+ 0.375%	+ 0.375%	+ 0.800%	+ 0.375%	+ 0.375%	+ 0.800%	+ 0.375%	+ 0.375%	+ 0.800%
DCR < 1.2	+ 0.375%	+ 0.375%	+ 0.375%	+ 0.375%	+ 0.375%	+ 0.375%	+ 0.375%	+ 0.375%	+ 0.375%
DCR < 1.0	+ 0.625%	+ 0.625%	+ 0.625%	+ 0.625%	+ 0.625%	+ 0.625%	+ 0.625%	+ 0.625%	+ 0.625%
FICO < 680	+ 0.125%	+ 0.125%	+ 0.125%	+ 0.125%	+ 0.125%	+ 0.125%	+ 0.125%	+ 0.125%	+ 0.125%
Biz < 1 Yr	+ 0.250%	+ 0.500%	+ 0.750%	+ 0.250%	+ 0.500%	+ 0.750%	+ 0.250%	+ 0.500%	+ 0.750%
Rate Floor	4.000%	4.125%	4.750%	4.250%	4.375%	4.750%	5.500%	5.750%	6.250%
Reset Mgn	n/a	n/a	n/a	n/a	n/a	n/a	initial	initial	initial

NEW LOANS ONLY	5 Year Fixed PAR RATE = 5-yr Swap + Spread Resets: Q at 3-Mo. Libor + Spread			10 Year Fixed PAR RATE = 10-yr Swap + Spread Resets: Q at 3-Mo. Libor + Spread			Fixed for Life PAR RATE = 10-yr Swap + spread calculated below		
Credit	Multi	Hosp	Other SP	Multi	Hosp	Other SP	Multi	Hosp	Other SP
Base	+ 3.400%	+ 3.600%	+ 4.200%	+ 3.550%	+ 3.700%	+ 4.250%	+ 3.450%	+ 3.600%	+ 4.200%
LTV > 55%	+ 0.375%	+ 0.375%	+ 0.800%	+ 0.375%	+ 0.375%	+ 0.800%	+ 0.375%	+ 0.375%	+ 0.375%
DCR < 1.2	+ 0.375%	+ 0.375%	+ 0.375%	+ 0.375%	+ 0.375%	+ 0.375%	+ 0.125%	+ 0.125%	+ 0.125%
DCR < 1.0	+ 0.625%	+ 0.625%	+ 0.625%	+ 0.625%	+ 0.625%	+ 0.625%	+ 7.625%	+ 7.750%	+ 8.375%
FICO < 680	+ 0.125%	+ 0.125%	+ 0.125%	+ 0.125%	+ 0.125%	+ 0.125%	+ 3.800%	+ 4.950%	+ 5.200%
Biz < 1 Yr	+ 0.250%	+ 0.500%	+ 0.750%	+ 0.250%	+ 0.500%	+ 0.750%	+ 0.000%	+ 0.000%	+ 0.000%
Rate Floor	+ 6.375%	+ 6.625%	+ 7.125%	+ 7.250%	+ 7.500%	+ 8.000%	+ 7.625%	+ 7.750%	+ 8.375%
Reset Mgn	initial	initial	initial	initial	initial	initial	n/a	n/a	n/a

	Maximum Loan Balance ($MM)		
Credit	Multi	Hosp	Other SP
LTV > 55%	$8 MM	$6 MM	$5 MM
DCR < 1.2	$0 MM	$0 MM	$0 MM
DCR < 1.0	$0 MM	$0 MM	$0 MM
FICO < 680	$0 MM	$0 MM	$0 MM
Biz < 1 Yr	-$1 MM	-$1 MM	-$1 MM
Biz < 1 Yr	$0 MM	$0 MM	$0 MM

Rate Floors

Please Note: The Rate Floor must be the higher of the initial rate or the stated rate floor.

Loan Exclusions

An LTV in excess of 70%, Guarantor average FICOs less than 650 and a history of delinquency in the last 12 months are excluded from bids.

SECONDARY MARKET ACCESS

504 FMLP Rate Guidance - 85% Loan Interest Sale

Applies To New Loans Only. Existing Loans Custom Quoted

Each +0.25% added to Note Rate provides 1.00% in YSP. Max 6% premium.

Prepay Penalty Premium Calc	
Adjustable	
No Prepay Penalty	-1.00%
5,4,3,2,1	+ 0.00%
5,5,5,5,5	+ 1.00%
7,6,5,4,3,2,1	+ 1.50%
10,9,8,7,6,5,4,3,2,1	+ 2.00%
5-yr Fixed	
No Prepay Penalty	-1.00%
5,4,3,2,1	+ 0.00%
5,5,5,5,5	+ 1.00%
7,6,5,4,3,2,1	+ 1.50%
10,9,8,7,6,5,4,3,2,1	+ 2.00%
7-yr Fixed	
No Prepay Penalty	-1.50%
5,4,3,2,1	+ 0.00%
5,5,5,5,5	+ 1.00%
7,6,5,4,3,2,1	+ 1.50%
10,9,8,7,6,5,4,3,2,1	+ 2.00%
10-yr Fixed	
No Prepay Penalty	-+ 2.00%
5,4,3,2,1	-+ 1.00%
5,5,5,5,5	+ 0.00%
7,6,5,4,3,2,1	+ 1.00%
10,9,8,7,6,5,4,3,2,1	+ 2.00%

Up to 20% of principal paid per year without penalty is subject to a .50% reduction in premium.

Other Pricing Notes

Interest Rate Accrual: Pricing assumes 365/360 interest rate accrual. Premium will be adjusted downward if 365/360 accrual is not obtained.

Servicing: All pricing options included at least .50% servicing income to the Seller as mandated by SBA. This amount is paid on the entire 85% loan interest sold.

Excess Servicing: For those loans priced above the maximum premium payout, the excess interest rate will be passed through as 'Excess Servicing' on the entire 85% of the loan amount sold to the Pool Originator. For example, if the premium cap is based on a rate of 7% but the note rate is 7.50%, the servicing income would equal 1.00% on the entire 85% loan interest. Please confer with accounting experts on the sales treatment for loans sold with servicing above the .50% minimum.

Additional Pricing Factors: SMA and its partners reserve the right to adjust pricing based on other factors, including management experience and industry type.

Rate Reset: Fixed rate pricing guidance assumes loan will convert to a 90-day adjustable based on 90 day LIBOR + the original spread. A fixed rate reset is possible but will negatively affect the premium.

New Loans Only: This Rate Guidance Sheet is for the purposes of structuring new loans only and does not apply to existing loans or existing loan pools. Sellers wishing to sell existing loans should contact Government Loan Solutions (GLS) at 216-456-2480 or info@glsolutions.us for loan tape submission and indicative pricing.

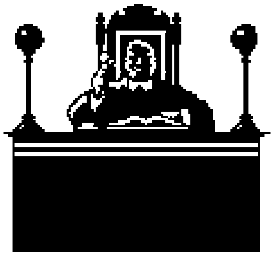
Self Pool Originators: This rate sheet is for Sellers wishing to sell 85% loan interests individual loans to Pool Originator buyers. Sellers wishing to become Self Pool Originators should contact Government Loan Solutions (GLS) for additional information.

Other Pricing Options: This Rate Guidance Sheet is intended to maximize value for the Seller. Any rate, prepayment penalty, interest rate accrual or other pricing factor can be considered but must be priced individually. Please contact GLS for a custom loan quote.

Disclosures

Rate Guidance: Rate guidance is being provided by Secondary Market Access as a benefit to 504 first mortgage lenders wishing to sell 85% loan interests to Pool Originator buyers. SMA provides this Rate Guidance Sheet after consuting various Pool Originator buyers who wish to disclose this information. It is not intended to be a premium quote for any specific Pool Originator buyer. Neither SMA nor GLS is a Pool Originator buyer and cannot offer a formal bid. This rate guidance is subject to current understanding of the program and could change subject to further clarification by SBA or Pool Originator buyers.

FAS 166: Neither SMA nor GLS offers an opinion as to sales treatment accounting in a situation of excess servicing. Please contact your CPA for guidance.



THE LEGAL BEAT

SBA POLICY CHANGE: SECONDARY MARKET SALES BY "HIGH-RISK" LENDERS

By Jessica L. Conn, Esq.

The SBA has a vested interest in the performance of loans on the secondary market and recent policy changes demonstrate that the SBA is subjecting lenders that they consider to be "higher risk" to increasing levels of scrutiny and oversight. When an SBA loan is sold on the secondary market, the nature of the SBA guaranty changes for the SBA. Before a loan is sold, the portion of the loan that is guaranteed by the SBA (the "Guaranteed Portion") is conditional -- conditioned on the lender's compliance with SBA regulations. To the extent the lender does not comply with the SBA regulations, SBA may repair the Guaranteed Portion, meaning SBA reduces its guaranty by any amount SBA deems lost due to the lender's non-compliance with SBA regulations, or may deny the guaranty altogether. However, once the loan is sold on the secondary market, the Guaranteed Portion becomes an unconditional guaranty by SBA with respect to the secondary market investor, meaning that upon default, unless the lender repurchases the loan from the investor, the SBA has an unconditional obligation to repurchase, regardless of the lender's compliance with SBA regulations. If SBA is required to purchase the Guaranteed Portion of a loan back from the secondary market following a default, SBA will conduct a post-purchase review of the file and will pursue the lender for any part of that Guaranteed Portion that would have been subject to a repair or denial.

Since 2009, SBA has required increasing levels of scrutiny before allowing "higher risk" SBA lenders to participate in secondary market sales. Lenders that are subject to "(i) a Cease & Desist order, (ii) a Consent Agreement affecting capital or commercial lending issues, or (iii) other supervisory action that cites unsafe and unsound banking practices or other items of concern to SBA , or (iv) where the SBA Lender's auditor issued a Going Concern opinion in the audited financial statements" ("Regulatory Actions") are considered to be a higher risk (SBA Procedural Notice 5000-1205). SBA is concerned that if a lender subject to Regulatory Actions, is placed in receivership by the FDIC, SBA's ability to recover the repaired or denied funds would be impaired. This concern led SBA to initiate a policy whereby it would conduct a pre-sale review of each loan that a high risk lender wanted to sell on the secondary market. However, due to the number of lenders requiring such review, the process has become too burdensome for SBA -- often resulting in significant delays for lenders.

To address this situation, effective June 30, 2011, in lieu of reviewing each individual loan file prior to sale, SBA will require lenders subject to any Regulatory Actions to enter into a reserve account agreement (the "Reserve Account Agreement") prior to requesting approval to sell loans on the secondary market. Pursuant to the Reserve Account Agreement, lenders will be required to establish a reserve account with an initial deposit of either: (i) two times SBA lender's average 7(a) loan size if the lender's gross dollars outstanding for its active loans is $10 million or greater, or (ii) one time the lender's average 7(a) loan size if the lender's gross dollars outstanding for its active loans is less than $10 million. Additionally, for each loan that will be sold on the Secondary Market, the lender will be required to deposit an amount equal to the "total gross dollar amount of the Guaranteed Portions to be sold, multiplied by the greater of (a) SBA's overall 7(a) Loan guarantee repair/denial rate as calculated by SBA for the most recent available quarter or (b) the SBA lender's 7(a) loan guarantee repair/denial rate as calculated by SBA for the most recent available quarter" (SBA Procedural Notice 5000-1205).

In addition to the creation of a reserve account, lenders that are subject to any Regulatory Actions must abide by additional restrictions with respect to sales themselves. The lender may not sell the Guaranteed Portion of a loan within 6 months of the final disbursement date of the loan if the lender's 7(a) loan portfolio exceeds any two of the following performance indicators by one and one-half times the average for the portfolio, as calculated by SBA. The performance indicators are early default rate, past due rate, delinquency rate, liquidation rate and 12 month purchase rate. Additionally, the lender may not sell the Guaranteed Portion if (i) any payment of principal or interest has been past due (one payment cycle late) or deferred on the 7(a) Loan during the six month period prior to the sale date; (ii) at the time of the sale, the borrower is not making payments as scheduled under the original terms of the 7(a) Loan note (for the Guaranteed Portion); or (iii) the Guarantee Portion to be sold is part of a 7(a) Loan that is classified by SBA Lender as special mention, substandard, doubtful or loss or has been restructured" (SBA Procedural Notice 5000-1205).

The new SBA regulations are designed to mitigate risk to the SBA portfolio and to provide higher risk lenders that want to sell their loans on the secondary market with a process that will provide a more streamlined and predictable mechanism for conducting secondary market sales. Lenders that are or become subject to a Regulatory Action must be aware of these new regulations and must comply with them in all respects in order to sell in the secondary market.

For further information, please see SBA Procedural Notice 5000-1205 or contact Jessica Conn at jconn@starfieldsmith.com or 267-470-1188.

GLS 7(a) Sale & Settlement Tip # 32— Life is like a box of chocolates …

Or rather, SBA procedures are, and you never really do know what you are going to get. Effective Friday, April 15th, 2011, The SBA has released a new procedural notice requiring 'higher risk' lenders seeking to sell loans into the secondary market enter into a <u>Reserve Account Agreement</u> with the SBA prior to requesting SBA approval to sell.

Rather than reiterate the entire notice or the summary published by NAGGL, I urge you to acquaint yourself with the new procedure via the link listed below if your institution is subject to: (i) a Cease & Desist order, (ii) a Consent Agreement affecting capital or commercial lending issues, or (iii) other supervisory action that cites unsafe and unsound banking practices or other items of concern to SBA, or (iv) where the SBA Lender's auditor issued a Going Concern opinion in the audited financial statements (collectively, the "Actions").

http://library.constantcontact.com/download/get/file/1102418459773-310/5000_1205_SecMktReserve.pdf

Scott Evans is a partner at GLS. Mr. Evans has over 18 years of trading experience and has been involved in the SBA secondary markets for the last eight of those years. Mr. Evans has bought, sold, settled, and securitized nearly 20,000 SBA loans and now brings some of that expertise to the ***CPR Report*** *in a recurring article called* ***Sale and Settlement Tip of the Month****. The article will focus on pragmatic tips aimed at helping lenders develop a more consistent sale and settlement process and ultimately deliver them the best execution possible.*

GLS VALUE INDICES MOSTLY HIGHER

In February, the GLS Value Indices came in mostly higher, with four out of six indices rising.

The Base Rate / Libor spread was unchanged at +2.96% and the prepayment element decreased in five out of six maturity categories, helping the overall rise in the indices.

As can be seen from below, the secondary market has found a level between 110 and 114, depending on maturity and gross margin. For this reason, the indices have remained very close to January levels.

Turning to the specifics, the largest increase was seen in the GLS VI-1, which rose by 15% to 89 basis points. The other increases, by order of magnitude, were: VI-3 (+11% to 130) and VI-4 (+9% to 190) and VI-6 (+2% to 208).

The two decreases were seen, again by order of magnitude, in VI-2 (-6% to 113) and VI-5 (-4% to 223).

With prepayments low and stability in the Prime/Libor relationship, the secondary market has found a trading range. As long as that remains the case, there is no reason to believe that the market will trade down in the near future.

For further information on the terminology and concepts used in this article, please refer to the "Glossary and Definitions" at the end of the report.

Data on pages 16-17, Graph on page 18

7(a) Secondary Market Pricing Grid: February 2010

Maturity	Gross Margin	Net Margin	Servicing	This Month Price	Last Month Price	3-Mos. Ago Price	6-Mos. Ago Price	1-Yr. Ago Price
10 yrs.	2.75%	1.075%	**1.00%**	**110.70**	**110.70**	**111.125**	**111.125**	**108.875**
15 yrs.	2.75%	1.075%	**1.00%**	**111.50**	**111.50**	**111.625**	**111.75**	**109.25**
20 yrs.	2.75%	1.075%	**1.00%**	**113.125**	**113.125**	**113.125**	**113.00**	**110.00**
25 yrs.	2.75%	1.075%	**1.00%**	**113.95**	**113.95**	**113.875**	**113.50**	**110.125**

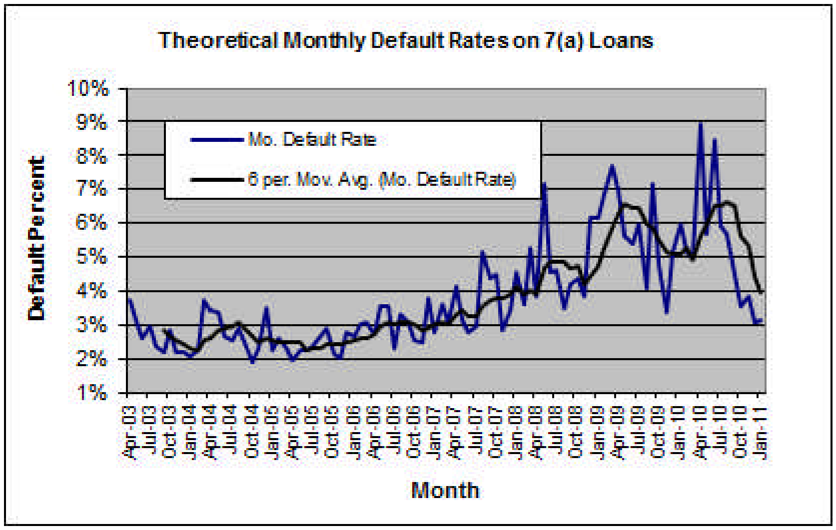
Default Rate Rises Again

The third month of 2011 saw the default rate rise again, but remain below 4% for the fifth month in a row. All told, it rose by 24% to 3.91% from 3.16% in February.

Turning to the chart on the right, we see the steep decrease in the default rate over the past six months, nearly reaching pre-recession levels of sub-3%. With the default rate having fallen by 66% between May, 2010 and January, 2011, we are not surprised by the 25% retracement over the past two months.

While the default rate has fallen significantly since mid-2010, a sustained decrease into the 2% range will require much greater economic growth than we are currently seeing this year. With GDP growth for Q1 2011 coming in only at 1.8%, small businesses cannot return to the levels of profitability necessary for sub-2% SBA default rates. More economic growth is needed, but where it will come from is uncertain.

Having said that, GDP growth in the 2% range should keep default rates in the 3% to 4% range this year. Not bad when compared to what we were seeing in 2009-2010, but still above where we should be at this stage of recovery after a deep recession.



Just having paid $4.15 per gallon of gas to fill up my car, I don't foresee growth rates above the mid-2s anytime soon. Let's just hope we don't go negative in the quarters to come.

Default-Curtailment Ratios

In our Default-Curtailment Ratios (DCR) we witnessed an increase in both the 504 and 7a DCRs last month. This represents the first double-increase in the ratios since July of 2010.

Please note that an increase in the DCR does not necessarily mean that the default rate is rising, only that the percentage of early curtailments attributable to defaults has increased.

SBA 7(a) Default Ratios

After going below 50% for the first time in two years this January, we have seen readings above 50% over the past two months. In fact, the 7(a) DCR rose 11% to 59.02% in March.

A rise in defaults, combined with a small increase in the voluntary prepayment component, led to the double-digit increase in the ratio.

Turning to actual dollar amounts, defaults rose by 28% to $116 million from $91 million. As for voluntary prepayments, they rose by 1% to $81 million versus $80 million the previous month.

SBA 504 Default Ratios

For the 504 DCR, both voluntary prepayments and defaults increased in March. With defaults rising by a greater percentage than voluntaries, the ratio increased.

Specifically, the dollar amount of defaults increased by $37 million to $130 million (+40%). As for voluntary prepayments, they rose by $4 million to $66 million (+6%).

Summary

The recovery in the DCR for both programs was interrupted last month due to rising defaults. Whether this increase in defaults is a temporary phenomena is not yet certain. While we don't expect large increases in future months, low economic growth could have a negative impact of small business failures. As for voluntary prepayments, nothing on the horizon suggests that increases are imminent. In fact, decreases seem more likely due to the sluggish economy.

For further information on the terminology and concepts used in this article, please refer to the "Glossary and Definitions" at the end of the report.

Graph on page 23

GLS Value Indices: Supporting Data

Table 1:

MONTH	BUCKET 1 CPR	BUCKET 2 CPR	BUCKET 3 CPR	BUCKET 4 CPR	BUCKET 5 CPR	BUCKET 6 CPR
Sep-07	19.18%	17.10%	14.19%	19.85%	18.61%	23.98%
Oct-07	18.14%	17.04%	14.59%	19.16%	18.57%	23.85%
Nov-07	17.68%	16.02%	14.82%	18.87%	18.32%	24.16%
Dec-07	17.14%	15.38%	14.42%	17.22%	17.99%	23.23%
Jan-08	15.70%	14.68%	13.96%	16.44%	17.45%	22.00%
Feb-08	15.91%	13.98%	14.19%	16.20%	17.53%	21.19%
Mar-08	15.58%	13.42%	13.27%	15.08%	15.41%	19.34%
Apr-08	16.16%	13.40%	13.05%	14.59%	15.19%	18.74%
May-08	15.49%	12.93%	12.65%	13.77%	14.33%	17.33%
Jun-08	15.29%	13.36%	12.96%	14.75%	13.62%	17.14%
Jul-08	15.70%	13.03%	12.78%	14.40%	12.49%	16.59%
Aug-08	15.45%	13.28%	12.87%	13.73%	12.24%	15.89%
Sep-08	14.03%	12.49%	12.77%	13.28%	12.36%	15.20%
Oct-08	12.98%	11.67%	12.16%	12.13%	11.97%	14.06%
Nov-08	12.08%	12.36%	11.45%	11.49%	11.49%	13.22%
Dec-08	12.37%	11.81%	10.46%	9.79%	11.08%	11.41%
Jan-09	12.86%	11.55%	10.45%	9.29%	10.61%	10.40%
Feb-09	12.30%	11.30%	10.36%	8.39%	9.99%	9.30%
Mar-09	12.96%	11.97%	10.58%	8.57%	10.47%	8.79%
Apr-09	13.23%	12.34%	11.23%	8.75%	9.81%	8.55%
May-09	13.12%	11.89%	11.80%	8.68%	9.92%	7.98%
Jun-09	13.18%	11.85%	12.36%	8.57%	8.73%	8.02%
Jul-09	12.40%	12.00%	12.51%	8.56%	8.23%	7.36%
Aug-09	13.38%	12.49%	12.36%	8.01%	7.34%	7.21%
Sep-09	12.79%	11.01%	11.83%	7.48%	6.70%	6.89%
Oct-09	12.50%	11.03%	11.35%	7.25%	7.85%	6.79%
Nov-09	12.16%	10.89%	11.05%	6.96%	7.13%	6.32%
Dec-09	11.38%	11.20%	10.59%	7.09%	7.80%	5.75%
Jan-10	11.20%	10.69%	10.34%	6.99%	8.00%	5.75%
Feb-10	10.06%	9.97%	10.05%	7.33%	8.84%	5.71%
Mar-10	9.92%	10.73%	10.11%	7.12%	8.75%	5.75%
Apr-10	9.97%	10.45%	9.73%	7.34%	8.12%	5.32%
May-10	10.58%	11.09%	10.29%	7.88%	8.53%	5.86%
Jun-10	10.95%	11.18%	10.42%	7.83%	8.53%	6.38%
Jul-10	10.33%	11.15%	10.57%	7.13%	8.59%	7.48%
Aug-10	10.45%	11.02%	10.16%	7.38%	8.25%	7.60%
Sep-10	11.29%	10.76%	10.54%	7.48%	8.01%	7.70%
Oct-10	11.35%	10.06%	10.28%	7.27%	7.29%	7.84%
Nov-10	10.89%	8.48%	8.45%	7.30%	5.61%	7.11%
Dec-10	11.35%	8.77%	9.04%	7.01%	6.67%	7.45%
Jan-11	12.00%	8.87%	7.84%	7.49%	5.03%	5.96%
Feb-11	11.23%	9.01%	7.57%	7.22%	4.91%	5.53%

Rolling six-month CPR speeds for all maturity buckets. Source: Colson Services

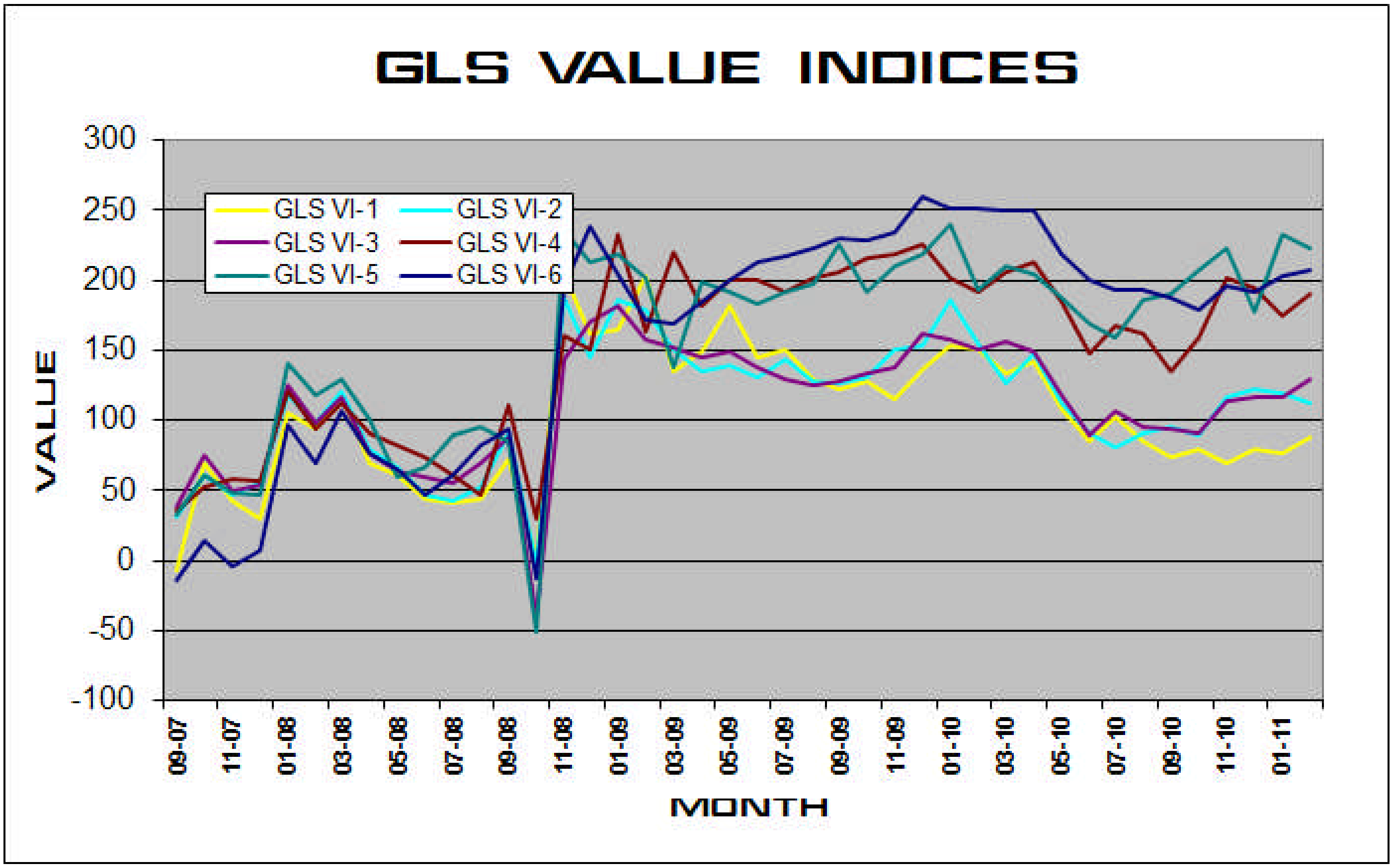
GLS VALUE INDICES: HISTORICAL VALUES

Table 2:

MONTH	WAVG LIBOR	WAVG BASE	BASE LIBOR SPD	GLS VI-1	GLS VI-2	GLS VI-3	GLS VI-4	GLS VI-5	GLS VI-6
Sep-07	5.70%	8.21%	2.51%	**-7.3**	32.2	38.1	36.3	33.3	**-14.1**
Oct-07	5.05%	7.74%	2.69%	70.2	61.9	75.6	52.2	61.9	14.6
Nov-07	4.96%	7.50%	2.54%	42.6	46.7	50.5	57.8	48.7	-4.3
Dec-07	5.02%	7.35%	2.33%	30.4	55.2	54.4	57.0	46.7	7.9
Jan-08	3.77%	6.86%	**3.09%**	105.1	118.6	124.7	121.4	140.1	96.8
Feb-08	3.10%	6.00%	2.90%	94.4	98.7	98.6	93.3	118.0	69.9
Mar-08	2.90%	5.95%	3.05%	118.1	120.5	116.2	112.0	128.8	107.4
Apr-08	2.81%	5.25%	2.44%	69.9	79.5	77.4	90.6	100.8	77.4
May-08	2.78%	5.15%	2.37%	61.2	66.7	64.1	82.9	60.5	65.1
Jun-08	2.67%	5.00%	2.33%	44.1	47.4	59.8	74.6	66.9	47.2
Jul-08	2.75%	5.00%	2.25%	41.7	43.4	55.3	60.8	89.1	61.6
Aug-08	2.74%	5.02%	2.27%	44.0	52.5	70.1	47.4	95.8	83.1
Sep-08	3.00%	5.00%	2.00%	73.3	91.2	88.5	111.3	85.2	94.2
Oct-08	4.43%	4.56%	**0.12%**	2.3	**-3.1**	**-38.6**	**30.5**	**-51.0**	-12.9
Nov-08	2.06%	4.00%	1.94%	**203.9**	**187.0**	143.2	161.1	236.0	196.6
Dec-08	1.64%	3.89%	2.25%	162.2	144.9	170.3	151.0	212.5	238.6
Jan-09	1.11%	3.25%	2.14%	164.8	185.5	**181.7**	**233.2**	218.3	204.4
Feb-09	1.15%	3.25%	2.10%	203.6	179.5	157.4	162.9	201.5	171.3
Mar-09	1.06%	3.25%	2.19%	135.3	150.3	151.6	220.4	138.0	169.7
Apr-09	0.96%	3.28%	2.32%	149.4	134.8	144.3	182.0	198.3	184.5
May-09	0.70%	3.26%	2.57%	182.1	138.7	149.6	200.3	192.4	200.8
Jun-09	0.55%	3.25%	2.70%	144.8	130.3	137.3	200.2	183.8	212.8
Jul-09	0.48%	3.25%	2.77%	150.9	143.8	129.1	191.9	192.4	217.4
Aug-09	0.39%	3.25%	2.86%	129.7	127.4	125.7	201.7	197.3	222.8
Sep-09	0.29%	3.25%	2.96%	122.0	126.5	128.3	205.5	225.3	229.6
Oct-09	0.26%	3.25%	2.99%	128.2	131.3	133.9	216.0	191.2	228.8
Nov-09	0.26%	3.25%	2.99%	115.3	150.9	138.0	219.2	210.8	234.2
Dec-09	0.25%	3.25%	3.00%	136.1	153.4	162.0	226.3	218.0	**259.6**
Jan-10	0.25%	3.24%	2.99%	153.9	186.5	157.2	201.0	**240.6**	250.7
Feb-10	0.25%	3.23%	2.99%	150.8	155.1	150.4	192.3	193.0	250.7
Mar-10	0.26%	3.25%	2.99%	133.1	126.0	155.8	206.4	209.5	249.2
Apr-10	0.29%	3.25%	2.96%	142.1	147.5	149.3	213.6	205.1	250.0
May-10	0.41%	3.25%	2.84%	107.5	112.1	117.5	184.4	187.2	218.1
Jun-10	0.52%	3.25%	2.73%	85.9	90.9	90.1	147.5	168.7	200.4
Jul-10	0.46%	3.26%	2.80%	102.7	81.0	106.7	167.0	159.5	193.5
Aug-10	0.33%	3.26%	2.93%	85.6	91.6	95.4	161.6	186.6	193.2
Sep-10	0.28%	3.25%	2.97%	74.1	95.3	94.0	135.6	190.8	187.2
Oct-10	0.28%	3.25%	2.97%	79.8	89.7	91.3	159.8	207.2	179.5
Nov-10	0.27%	3.25%	2.98%	70.5	117.2	113.5	202.0	223.5	195.4
Dec-10	0.30%	3.30%	3.00%	80.1	121.8	116.0	194.9	178.1	192.3
Jan-11	0.29%	3.25%	2.96%	77.0	119.8	117.3	175.2	232.3	203.7
Feb-11	0.29%	3.25%	2.96%	88.9	112.9	129.8	190.4	222.9	207.6

INDICES LEGEND	
(green)	HIGHEST READING
(red)	LOWEST READING

GLS VI values for all maturity buckets for last 42 months.


GLS VALUE INDICES
GLS VI-1
GLS VI-2
GLS VI-3
GLS VI-4
GLS VI-5
GLS VI-6
VALUE
300
250
200
150
100
50
0
-50
-100
09-07
11-07
01-08
03-08
05-08
07-08
09-08
11-08
01-09
03-09
05-09
07-09
09-09
11-09
01-10
03-10
05-10
07-10
09-10
11-10
01-11
MONTH

YTD Prepayment Speeds

Table 3:

CPR/MO.	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
Jan-11	14.30%	9.08%	6.94%	6.85%	3.82%	5.26%	**6.13%**
Feb-11	5.96%	9.95%	6.43%	5.52%	5.78%	5.02%	**5.74%**
Mar-11	10.25%	7.41%	7.63%	5.62%	8.43%	5.47%	**6.40%**
Grand Total	**10.21%**	**8.83%**	**7.00%**	**6.00%**	**6.03%**	**5.25%**	**6.09%**

2011 monthly prepayment speeds broken out by maturity sector. Source: Colson Services

Table 4:

POOL AGE	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
Jan-11	22 Mos.	31 Mos.	32 Mos.	67 Mos.	49 Mos.	50 Mos.	**45 Mos.**
Feb-11	22 Mos.	30 Mos.	32 Mos.	66 Mos.	50 Mos.	51 Mos.	**45 Mos.**
Mar-11	23 Mos.	31 Mos.	33 Mos.	66 Mos.	50 Mos.	50 Mos.	**45 Mos.**

2011 pool age broken out by maturity sector. Source: Colson Services

YEAR-TO-DATE CPR DATA

Table 5:

< 8 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-11	8.14%	24.87%	18.55%	10.61%	14.45%
Feb-11	6.33%	2.69%	5.40%	4.49%	12.63%
Mar-11	10.15%	5.53%	11.73%	7.38%	19.55%
Grand Total	**8.18%**	**11.09%**	**12.13%**	**7.58%**	**15.69%**

10-13 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-11	4.90%	6.31%	12.35%	6.54%	5.14%
Feb-11	4.49%	10.85%	8.56%	4.39%	5.93%
Mar-11	7.41%	10.03%	9.38%	7.84%	4.86%
Grand Total	**5.60%**	**9.09%**	**10.18%**	**6.25%**	**5.30%**

16-20 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-11	0.00%	7.24%	8.01%	2.83%	2.85%
Feb-11	0.00%	4.73%	9.77%	14.87%	1.78%
Mar-11	3.22%	4.01%	19.91%	8.32%	7.84%
Grand Total	**1.09%**	**5.31%**	**12.48%**	**8.87%**	**4.19%**

8-10 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-11	2.09%	10.85%	12.52%	4.62%	11.81%
Feb-11	0.48%	18.09%	9.47%	9.90%	7.17%
Mar-11	1.99%	9.13%	8.29%	6.50%	9.50%
Grand Total	**1.51%**	**12.79%**	**10.25%**	**7.16%**	**9.51%**

13-16 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-11	0.00%	30.56%	5.65%	0.00%	5.93%
Feb-11	15.31%	2.76%	12.71%	9.95%	3.99%
Mar-11	0.00%	2.77%	24.05%	17.31%	5.19%
Grand Total	**5.48%**	**10.77%**	**13.13%**	**9.16%**	**5.04%**

20+ BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-11	2.78%	5.44%	6.82%	9.07%	4.80%
Feb-11	2.22%	8.00%	5.69%	5.72%	4.78%
Mar-11	2.82%	5.10%	11.55%	6.27%	5.18%
Grand Total	**2.61%**	**6.22%**	**8.23%**	**7.05%**	**4.92%**

2011 YTD CPR by maturity and age bucket. Source: Colson Services

GLOSSARY AND DEFINITIONS: PART 1

Default-Curtailment Ratio

The Default-Curtailment Ratio (DCR), or the percentage of secondary loan curtailments that are attributable to defaults, can be considered a measurement of the health of small business in the U.S. GLS, with default and borrower prepayment data supplied by Colson Services, has calculated DCRs for both SBA 7(a) and 504 loans since January, 2000.

The default ratio is calculated using the following formula:

Defaults / (Defaults + Prepayments)

By definition, when the DCR is increasing, defaults are increasing faster than borrower prepayments, suggesting a difficult business environment for small business, perhaps even recessionary conditions. On the flip side, when the DCR is decreasing, either defaults are falling or borrower prepayments are outpacing defaults, each suggesting improving business conditions for small business.

Our research suggests that a reading of 20% or greater on 7(a) DCRs and 15% or greater on 504 DCRs suggest economic weakness in these small business borrower groups.

Theoretical Default Rate

Due to a lack of up-to-date default data, we attempt to estimate the current default rate utilizing two datasets that we track:

1. Total prepayment data on all SBA pools going back to 2003. This is the basis for our monthly prepayment information.

Total prepayment data on all secondary market 7(a) loans going back to 1999, broken down by defaults and voluntary prepayments. This is the basis for our monthly default ratio analysis.

With these two datasets, it is possible to derive a theoretical default rate on SBA 7(a) loans. We say "theoretical" because the reader has to accept the following assumptions as true:

1. The ratio of defaults to total prepayments is approximately the same for SBA 7(a) pools and secondary market 7(a) loans.
   Fact: 60% to 70% of all secondary market 7(a) loans are inside SBA pools.
2. The default rate for secondary market 7(a) loans closely approximates the default rate for all outstanding 7(a) loans.
   Fact: 25% to 35% of all outstanding 7(a) loans have been sold into the secondary market.

While the above assumptions seem valid, there exists some unknown margin for error in the resulting analysis. However, that does not invalidate the potential value of the information to the SBA lender community.

The Process

To begin, we calculated total SBA pool prepayments, as a percentage of total secondary loan prepayments, using the following formula:

Pool Prepay Percentage = Pool Prepayments / Secondary Loan Prepayments

This tells us the percentage of prepayments that are coming from loans that have been pooled. Next, we calculated the theoretical default rate using the following equation:

((Secondary Loan Defaults * Pool Prepay Percentage) / Pool Opening Balance) * 12

This provides us with the theoretical default rate for SBA 7(a) loans, expressed as an annualized percentage.

GLS Long Value Indices

Utilizing the same maturity buckets as in our CPR analysis, we calculate 6 separate indexes, denoted as GLS VI-1 to VI-6. The numbers equate to our maturity buckets in increasing order, with VI-1 as <8 years, VI-2 as 8-10 years, VI-3 as 10-13 years, VI-4 as 13-16 years, VI-5 as 16-20 years and ending with VI-6 as 20+ years.

The new Indices are basically weighted-average spreads to Libor, using the rolling six-month CPR for pools in the same maturity bucket, at the time of the transaction. While lifetime prepayment speeds would likely be lower for new loans entering the secondary market, utilizing six-month rolling pool speeds allowed us to make relative value judgments across different time periods.

We compare the bond-equivalent yields to the relevant Libor rate at the time of the transaction. We then break the transactions into the six different maturity buckets and calculate the average Libor spread, weighting them by the loan size.

For these indices, the value can be viewed as the average spread to Libor, with a higher number equating to greater value in the trading levels of SBA 7(a) loans.

GLOSSARY AND DEFINITIONS: PART 2

Prepayment Calculations

SBA Pool prepayment speeds are calculated using the industry convention of Conditional Prepayment Rate, or CPR. CPR is the annualized percentage of the outstanding balance of a pool that is expected to prepay in a given period. For example, a 10% CPR suggests that 10% of the current balance of a pool will prepay each year.

When reporting prepayment data, we break it into seven different original maturity categories: <8 years, 8-10 years, 10-13 years, 13-16 years, 16-20 years and 20+ years. Within these categories we provide monthly CPR and YTD values.

In order to get a sense as to timing of prepayments during a pool's life, we provide CPR for maturity categories broken down by five different age categories: 0-12 months, 13-24 months, 25-36 months, 37-48 months and 48+ months.

As to the causes of prepayments, we provide a graph which shows prepayment speeds broken down by voluntary borrower prepayment speeds, denoted VCPR and default prepayment speeds, denoted as DCPR. The formula for Total CPR is as follows:

Total Pool CPR = VCPR + DCPR

SBA Libor Base Rate

The SBA Libor Base Rate is set on the first business day of the month utilizing one-month LIBOR, as published in a national financial newspaper or website, plus 3% (300 basis points). The rate will be rounded to two digits with .004 being rounded down and .005 being rounded up.

Please note that the SBA's maximum 7(a) interest rates continue to apply to SBA base rates: Lenders may charge up to 2.25% above the base rate for maturities under seven years and up to 2.75% above the base rate for maturities of seven years or more, with rates 2% higher for loans of $25,000 or less and 1% higher for loans between $25,000 and $50,000. (Allowable interest rates are slightly higher for SBAExpress loans.)

Risk Types

The various risk types that impact SBA pools are the following:

Basis Risk: The risk of unexpected movements between two indices. The impact of this type of risk was shown in the decrease in the Prime/Libor spread experienced in 2007 and 2008.

Prepayment Risk: The risk of principal prepayments due to borrower voluntary curtailments and defaults. Overall prepayments are expressed in CPR, or Conditional Prepayment Rate.

Interest Rate Risk: The risk of changes in the value of an interest-bearing asset due to movements in interest rates. For pools with monthly or quarterly adjustments, this risk is low.

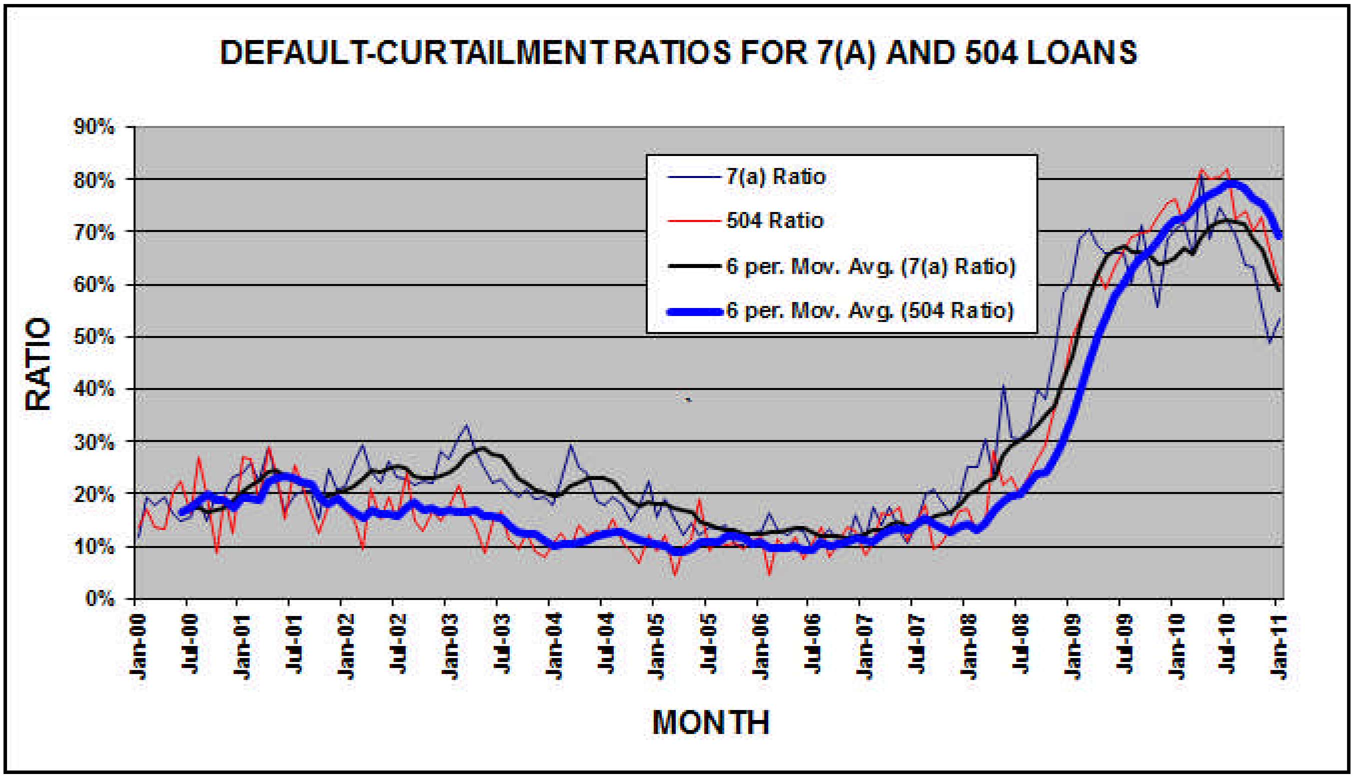
Credit Risk: Losses experienced due to the default of collateral underlying a security. Since SBA loans and pools are guaranteed by the US government, this risk is very small.

Secondary Market First Lien Position 504 Loan Pool Guarantee Program

As part of the American Recovery and Reinvestment Act (AKA the Stimulus Bill), Congress authorized the SBA to create a temporary program that provides a guarantee on an eligible pool of SBA 504 first liens. The program was authorized for a period of two years from the date of bill passage – February, 2009. The eligibility of each loan is dependent on the date of the SBA Debenture funding. To be eligible, the Debenture must have been funded on or after **February 17, 2009**, and prior to **February 16, 2011**. The total guarantee allocation is $3 Billion. HR 5297 provides for a two-year extension from the first pooling month.

The SBA announced that they will begin issuing the first pool guarantees in September, 2010 for early October settlement.

For the purposes of the program, a pool is defined as 2 or more loans. A pool must be either fixed (for life) or adjustable (any period adjustment including 5 or 10 years). If the pool is comprised of adjustable rate loans, all loans must have the same base rate (e.g. Prime, LIBOR, LIBOR Swaps, FHLB, etc.). Finally, each loan must be current for the lesser of 6 months or from the time of loan funding. Congress mandated that this be a **zero subsidy program to the SBA** (and the US taxpayer). The SBA has determined the program cost (management and expected losses) can be covered by an ongoing subsidy fee of .167%.


DEFAULT-CURTAILMENT RATIOS FOR 7(A) AND 504 LOANS
7(a) Ratio
504 Ratio
6 per. Mov. Avg. (7(a) Ratio)
6 per. Mov. Avg. (504 Ratio)
RATIO
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Jan-00
Jul-00
Jan-01
Jul-01
Jan-02
Jul-02
Jan-03
Jul-03
Jan-04
Jul-04
Jan-05
Jul-05
Jan-06
Jul-06
Jan-07
Jul-07
Jan-08
Jul-08
Jan-09
Jul-09
Jan-10
Jul-10
Jan-11
MONTH

Government Loan Solutions, Inc. (GLS) *was founded by three former Bond Traders in Cleveland, OH. Scott Evans, Rob Herrick and Bob Judge possess a combined 70 years experience in the institutional fixed income markets, 40 of which are in the loan securitization business. GLS formally began operations in January, 2007. Our mission is as follows:*

> *"The purpose of Government Loan Solutions is to bring greater efficiency, productivity and transparency to the financial markets. Through the use of proprietary technology, we intend to aid lenders in all aspects of their small business lending, help loan securitizers be more productive in their operational procedures and provide quality research to the investor community ."*

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- *Model Validation*
- *Specialized research projects*
- *Mortgage Servicing Valuation*

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