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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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August, 2009

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.

JULY CPR: PREPAYMENTS FALL BELOW CPR 8%

Overall prepayment speeds hit another 2009 low in July, falling 3.51% to CPR 7.82%. This represents the first sub-8% reading since December of last year.

For the second month in a row, both the **Default CPR** (red line) and the **Prepay CPR** (green line) fell in July.

Specifically, the Default CPR fell to DCPR 5.16%, the lowest reading this year, continuing the downward trend from the six-year high of DCPR 7.25% established in March of this year.

On the other side of the equation, the Prepay CPR reached a six-year low of PCPR 2.66%, continuing a two-year trend toward lower voluntary prepayment speeds.

For July, the overall prepayment rate fell in four out of six maturity categories. These decreases caused the overall YTD CPR to fall to CPR 9.31% from CPR 9.56%.

Turning to individual maturity sectors, the long-end decreased by 11.12%, falling to CPR 5.70%, the lowest reading this

Continued on page 2

Guest Commentary: **Coastal Securities**

SBA Market Outlook *Mid-Year 2009*

By Craig Cline & Chris LaPorte

Chicken Little was not the only one!

When looking back at the 2008 Mid Year Outlook, it appeared that much of the bad news that could impact SBA markets had already been realized. However, unknown to most participants was the fact that additional impediments were forthcoming. To say that the 3rd and 4th quarters of 2008 were trying is a vast understatement.

While there were many contributing factors, the most influential of these included a total disappearance of available credit, a historically unprecedented PRIME/LIBOR basis and a lack of fixed income sponsorship that lead to most asset classes cheapening to either historic or near historic levels. It seemed as if the sky was indeed falling!

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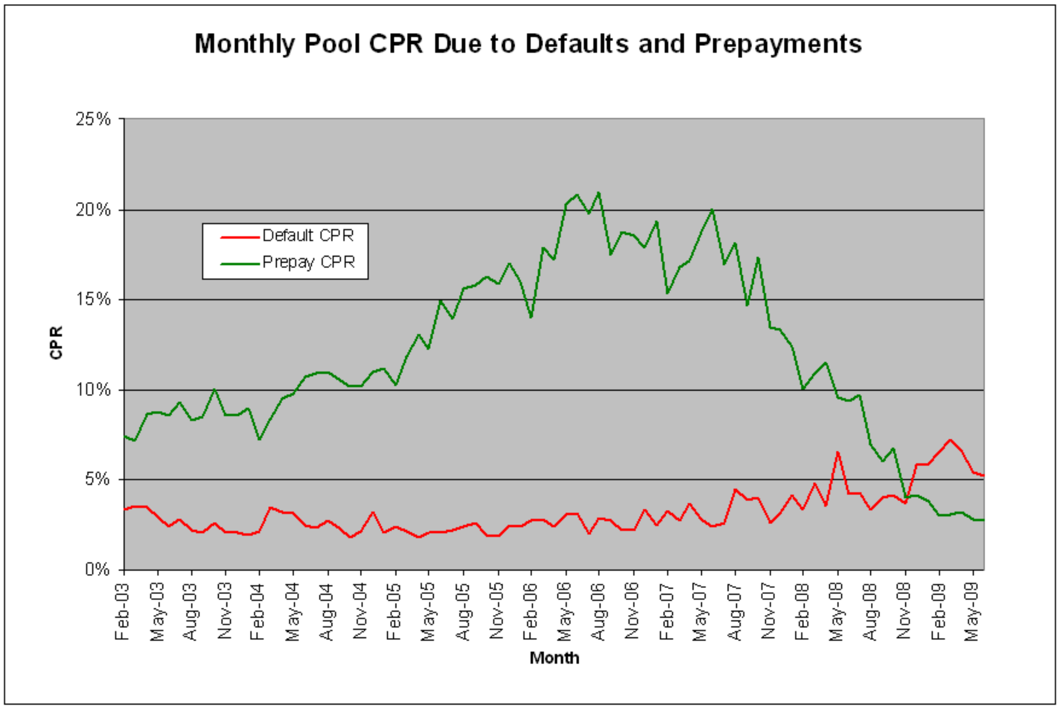
INSIDE THIS ISSUE:

Special points of interest:

- Prepayments fall below CPR 8%
- SBA Market Outlook
- August TALF Update
- Default Rate Stays Below 6%

JULY CPR...CONTINUED



decade, which happens to be the extent of our records. Other sectors that decreased included the <8 year bucket (-8.81% to CPR 12.14%), 8-10 year bucket (-2.51% to CPR 10.19%) and the 10-13 bucket (-5.45%, to CPR 11.09%).

Sectors that displayed increases included the 13-16 bucket (+58.45% to CPR 10.45%) and the 16-20 bucket (+7.35% to CPR 5.69%).

The decrease in the Default CPR for the third month in a row was another pleasant surprise and an indication that the worst of the recession may be behind us. While the economy is still in bad shape, prospects for positive economic growth are plausible for next year. If this comes to pass, then the DCPR should stay well below 7% for a significant period of time.

For the last three months, the formula for record-low overall prepayment speeds has been the same. Falling defaults in combination with sub-3% voluntary prepayment speeds has now pushed overall CPRs below 8%.

Due to the tightening of credit standards, it is unlikely that the VPCR will get above 3% anytime soon. If this is the case, as long as the DCPR can stay below 7%, we should be able to enjoy sub-10% overall prepayment speeds for the foreseeable 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 15-16

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"The decrease in the Default CPR for the third month in a row was another pleasant surprise and an indication that the worst of the recession may be behind us."

August TALF Update

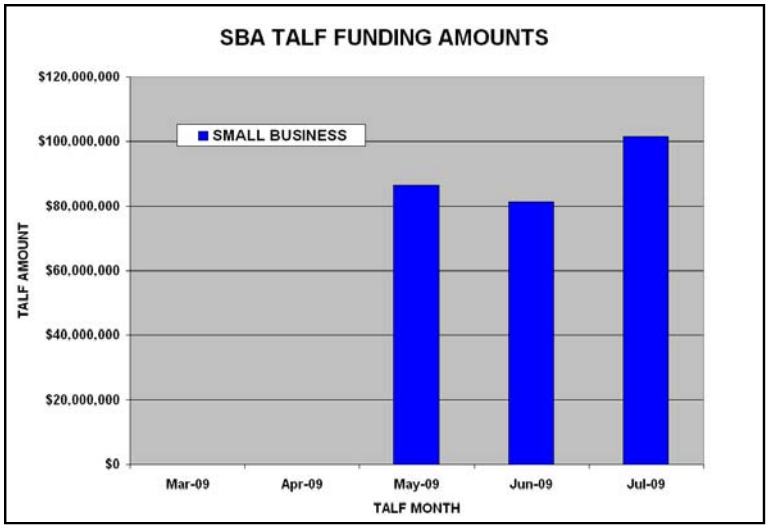
By Bob Judge

August saw an increase of 47% for small business ABS, which includes 7(a) pools and 504 debentures, that was financed inside the TALF.

The $149 million was the highest amount of small business ABS financed in the six-months of the TALF program. While the Fed does not break-out the amounts of 7(a) versus 504, rumor has it that approximately $50 million was done in 7(a) pools this month.

One of the reasons for the increase in 7(a) interest is a few changes and clarifications to the TALF program.

1. We have been told by a participant, later verbally confirmed by the Fed, that the premium re-payment mechanism for premium pools will stop once the amount of the premium that was financed is re-paid. *Please note that this statement has yet to be released in writing via the TALF FAQ.*
2. The calculation of the premium payment has been changed to the "current outstanding principal amount" instead of the original par amount (August 4th, 2009 revision to the TALF FAQ, page 64).
3. Other comparable TALF asset classes are now trading at levels that offer sub-10% returns, as opposed to the 12%-15% that was available early in the program.



Our interpretation of the first two changes is that the premium payment amount will decrease as the pool amortizes and prepays, not remain at the same amount until the premium is repaid. This amounts to less funds over a longer period being retained by the Fed than previously assumed.

Basically, the higher and longer the leverage remains in place, the greater the return from the TALF, all else being equal.

This interpretation, in combination with lower expected returns by TALF investors, makes SBA pools more attractive than in previous months.

However, these changes still only apply to higher premium pools. "Par" pools still do not offer attractive returns inside the TALF, and they compose a significant percentage of all outstanding SBA pools.

Until changes are made to make par pools attractive TALF investments, the amount of pools financed will remain below desired levels.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GLS 7(a) Sale & Settlement Tip of the Month

By Scott Evans

Sale and Settlement Strategies: Tip #12 – Email, settlement's new best friend…

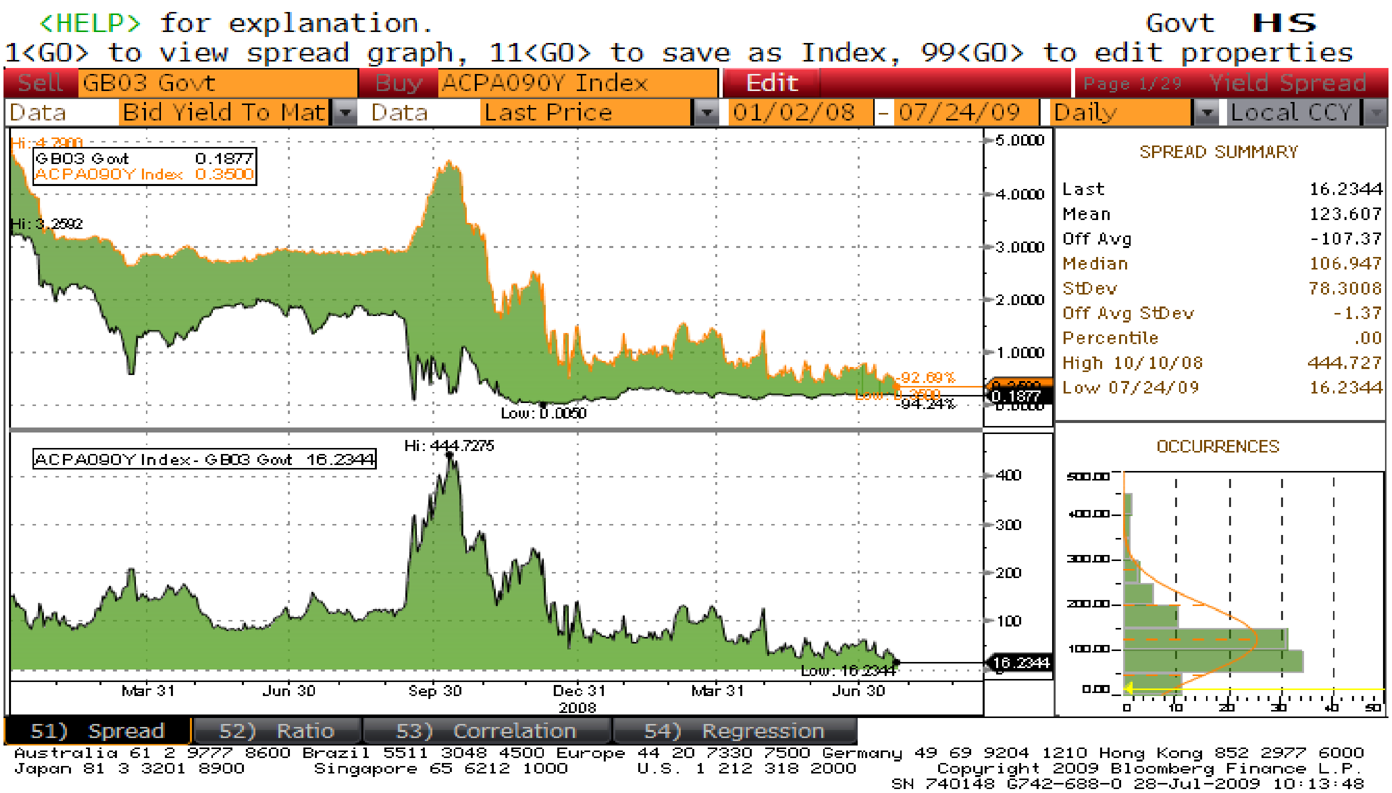
So you've sold some loans and despite having provided Colson with the required corrections, they still haven't settled after weeks of waiting. What you can do to help move things along? Simple, send an email. Emailing the SBA servicing office with an Etran screenshot, detail of what corrections were done, and an explanation that the loans have been sold into the secondary market may be all that it takes. Be sure to request that the servicing office simply respond with the word "acknowledged" and send the response along to Colson. Be sure to copy your buyer on any correspondence so they can be prepared to update your 1086 and be on the lookout for an approval shortly thereafter.

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.*

SBA Market Outlook...Continued

Brother, can you spare a dime or just REPO my position?

The availability of credit virtually disappeared during the last two quarters of 2008 and into the first quarter of 2009. This was not limited to main street – banks had practically ceased real estate lending and greatly curtailed loans on autos and homes due to the subprime mess. Wall Street was feeling the credit crunch to an even greater degree, particularly on short term financing. Using asset backed commercial paper as a proxy for tight short term credit, the **Bloomberg**® graph below reflects not only the lack of short term credit but also the flight to quality.



Financing was available, but at a very steep price. The sudden disdain for almost any asset class was primarily being driven by two factors: the fear of the unknown extent of subprime markdowns ***OR*** the fear that investors globally might soon be conducting mass asset disposal in an effort to maintain some semblance of liquidity. Likely, the most visible rate for many investors portraying this overall lack of liquidity was LIBOR – the rate index with the highest trading volume.

100 Year Flood Plain?

Since the inception of Eurodollar futures in the early 1980s, which led to the wide acceptance of LIBOR as probably the most used interest index, the rate had never seen the whipsaws of last fall. Granted, markets had also not seen the extent of credit deterioration since, arguably, the Great Depression. As a result, the PRIME/3 Month LIBOR basis, which is crucial to many SBA pool investors, was also severely whipsawed. While the first six months of 2008 remained within 10bps of historical (Five, Ten and Even Fifteen Year) PRIME/3Month LIBOR averages, the basis got squeezed to the tightest level ever observed with LIBOR actually exceeding PRIME for only the second time in our records, as evidenced by the above graph. The only other time was another cataclysmic event, 10/19/87, the day of the Black Monday stock market crash!

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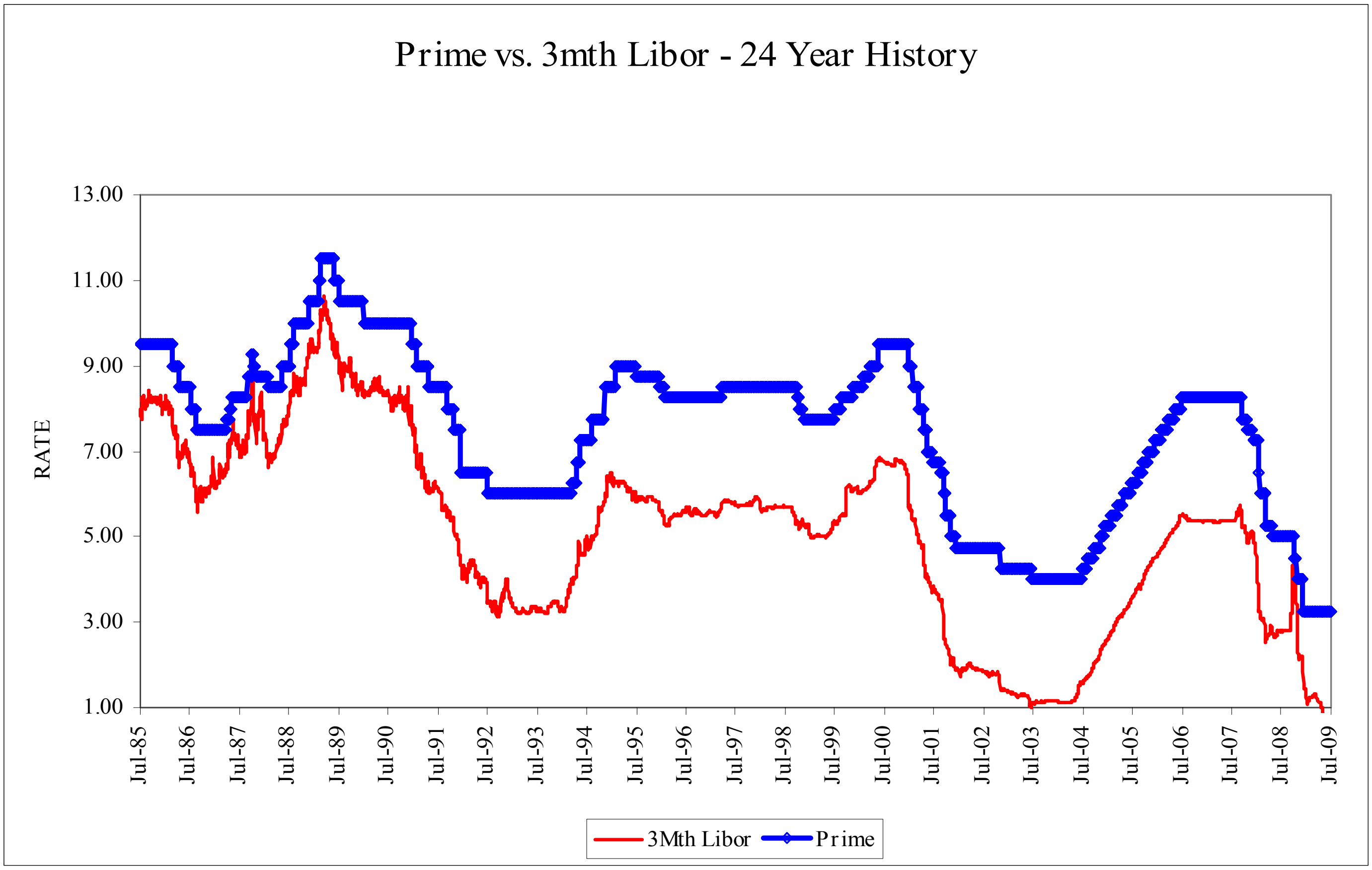

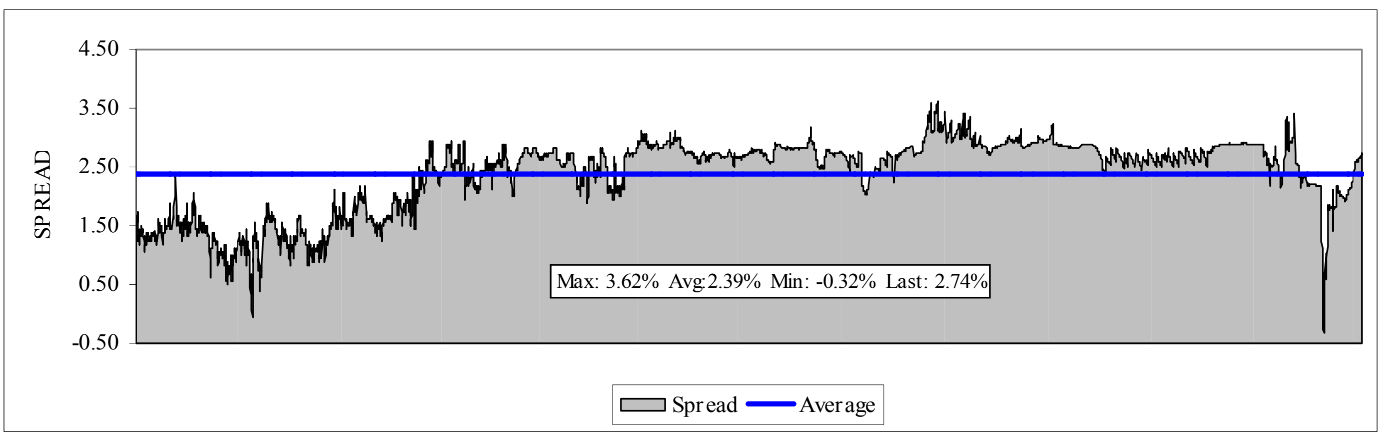

Perception is Reality

Against the backdrop we have painted thus far, the market remains in shambles, right? Not at all – what a difference a couple of quarters makes! Almost all fixed income markets have rebounded tremendously which begs the obvious question, what has led to this tremendous turn around?

- A very aggressive FED that slashed rates an additional 175bps over the last two quarters of 2008 (500bps in total for this fed easing campaign) to effectively 0.00% - the lowest recorded levels.
- The announcement of a plethora of government initiatives that have run the gamut from outright buying of securities, longer term financing of securities, lending facilities to SBA broker/dealers and even to changes in the lending programs themselves for SBA products.
- A return of some semblance of liquidity to the markets.

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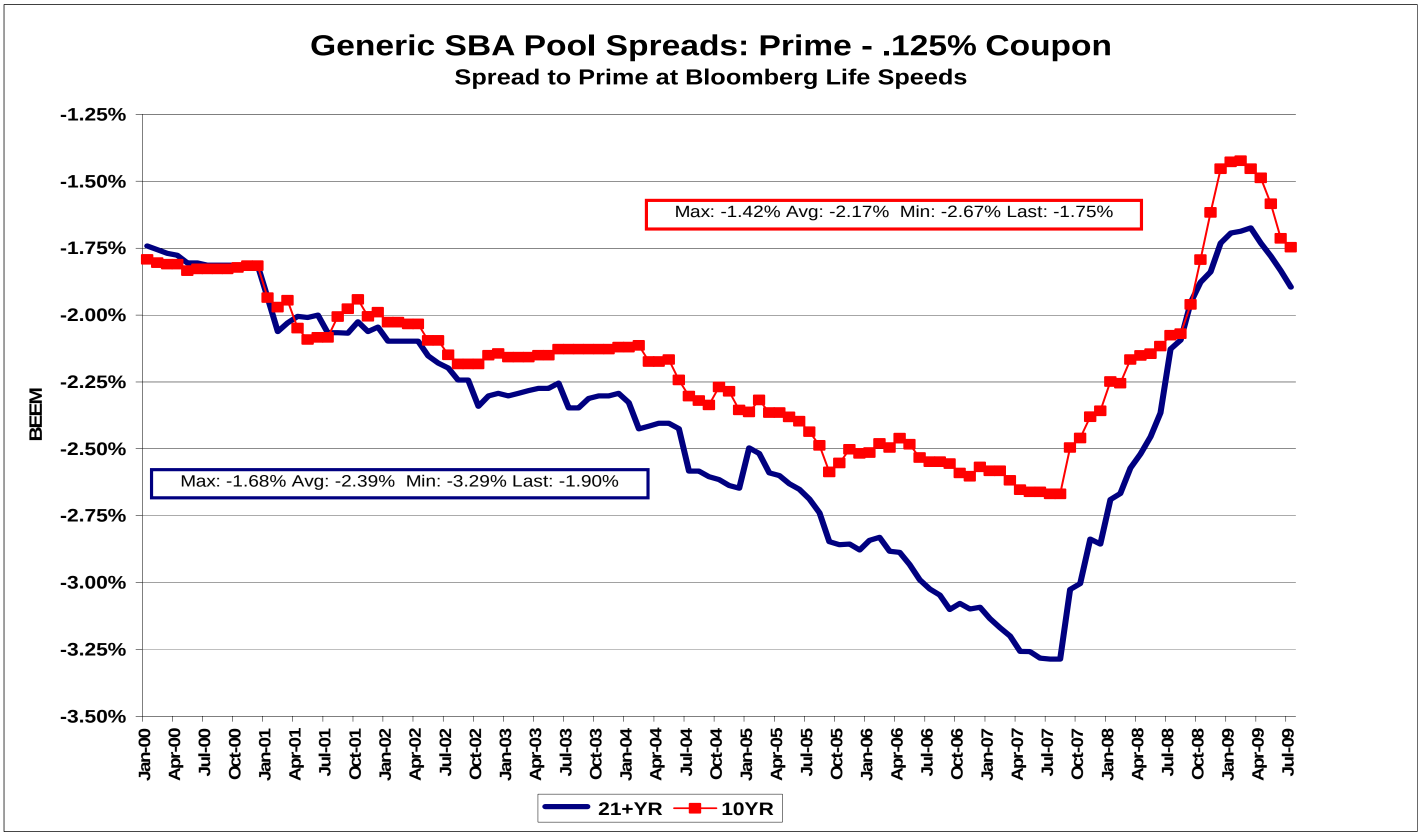
Some would like to attribute all of the improvement to the government initiatives but many of these programs have not yet been implemented and some of them, like TALF, have been met with a tepid reception at best. A better explanation is that perhaps the mere "liquidity backstop" that some of the programs represent has been enough to calm the fears of a very jittery market.



This has begun to impact pools as they are no longer at the lows but still remain well below long term historical averages. The "window of opportunity" remains open for SBA pools but for how long? While the previously mentioned governmental programs have yet to reach desired utilization, they still exist and are actively being promoted by the various agencies with changes advocated to make their use proliferate.

A fact potentially missed by the casual participant in the SBA sector is that prepayments are at or near the lowest rates of the last decade. A mistaken assumption about SBA prepayments is that they "must be through the roof" due to defaults. This assumption would seem plausible, but the fact of the matter is that small business loans do not really differ too much from single family residential loans in terms of what drives extremes in prepayments. While the two have completely differing *prepayment drivers*, a shared similarity is the fact that high levels of *involuntary payoffs* are seldom associated with hyper prepay levels. Defaults have increased dramatically (some might say, exponentially given the almost vertical ascent observed over the last two years) yet, overall prepayments are extremely low. The enormous decline in the voluntary component of payoffs (refinancing) has more than mitigated any risk posed by this expectedly high default rate (please see our monthly prepayment reports for additional detail).

Many market participants focus on LIFE speeds in evaluating SBA pools since they typically have longer holding periods. In periods of moderate prepayment volatility, this methodology is justified. However in periods of higher volatility like those seen in the "loose credit" period of the middle of this decade to the "no credit" period of the last year, a shorter prepayment series is appropriate. (See the 3-Month CPR chart on the next page) An investor relying exclusively on LIFE speeds to make current SBA pool assessments will likely underestimate the actual performance over the next year or two.

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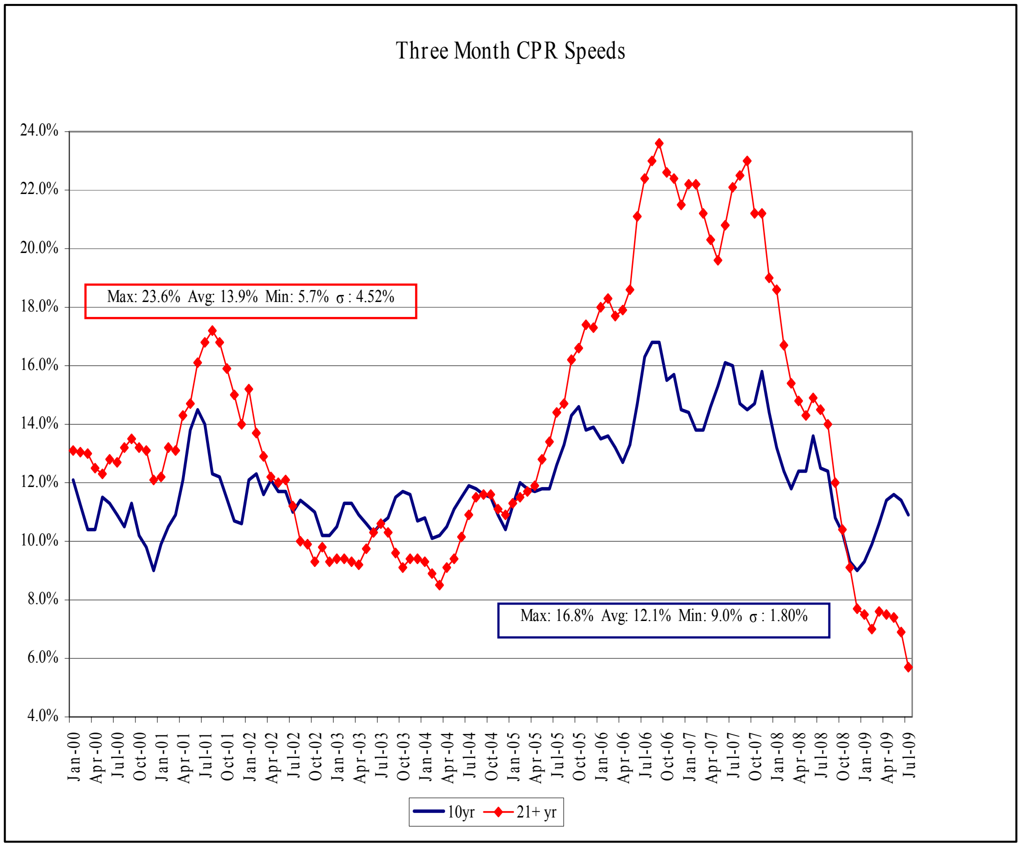


Opportunity Knocks! (conclusion)

While we do not gloss over the obstacles that market participants weathered in 2008, we see very rewarding prospects for the nimble investor in the SBA space. A combined set of unusual circumstances created this situation….and now, a combined set of unusual circumstances creates an optimal investing environment:

- Demonstrably low prepayment rates
- A stabilizing market due to greater global liquidity (or at worst perceived)
- Numerous unprecedented governmental initiatives
- Renewed flows in the SBA borrower, lender, assembler and investor communities
- Pricing levels still near historical lows (read: cheap!)

One circumstance that is not unusual is the likelihood that the current low interest rate environment will not last. Given the media's focus on "green shoots", any future rate shocks are most likely to higher rates. Invariably, investors will look to decrease portfolio durations; full faith and credit, short duration assets that SBA pools represent will likely fit that strategy.

We anticipate SBA pools to outperform many other asset classes within the fixed income sector. The spreads on these securities versus short term indices stand at historically wide levels and offer exceptional opportunity for astute investors, particularly those funded with short term financing. We welcome any discussions with you about these instruments and this commentary. Contact your Coastal Securities representative for more information on the SBA market and our available analytical programs.

Craig Cline is a Managing Director and Government Guaranteed Products Trader at Coastal Securities. A relative newcomer to the SBA sector, Craig joined the GL desk in 2005 bringing extensive fixed income experience gained by trading MBS, CMO and ABS products for almost twenty years.

Chris LaPorte is the Chairman of the Board of Coastal Financial Holdings, Inc., the holding company for Coastal Securities, Inc. He has served on the Board of Directors of NAGGL and continues to serve on the Association's Secondary Market Committee. Mr. LaPorte holds a B.S. degree from the University of Tennessee and a J.D. degree from the University of Tennessee Law School.

THE GOVGEX CORNER

GovGex reports a record month for July 2009, with both premiums and volume hitting new highs. **GovGex.com**, the fair and open exchange for buying and selling government guaranteed loans, saw premiums reach the mid 109% level on select loans. July volume also grew, with 109 loans worth $42,759,581 presented for sale on **GovGex.com**.

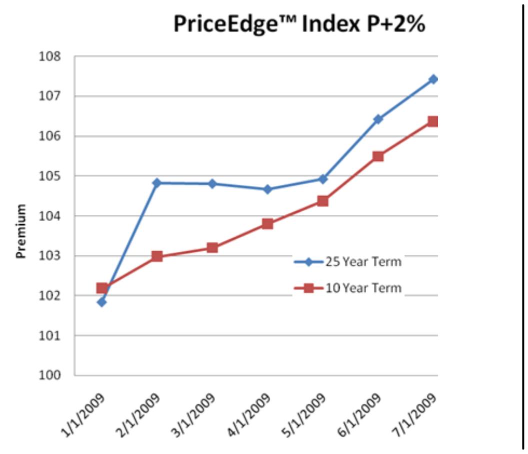
Below is recent price and trend information on SBA loan sale premiums as reported by the GovGex Independent Pricing Service. ***GovGex Transactions*** shows actual bids received on loans presented for sale through **GovGex.** ***GovGex PriceEdge***™ shows what a Prime + 2% loan of the given term that had just been funded would sell for in each month. **PriceEdge** robustly captures month-to-month pricing trends, while also controlling for factors including the age of the loan at the time of sale. For 10 year loans, the **PriceEdge** premium rose just under one percent between June and July, and for 25 year loans, the increase was over 1% once again.

GovGex Transactions—July

Deal Term	Premium
25	109.40%
15	109.00%
10	108.80%

GovGex PriceEdge™ P + 2%

Month	10 Year	25 Year
May	103.79	104.66
June	104.37	104.92
July	105.49	106.42



Note: the above tables present aggregated data. Subscribers of the **GovGex Independent Pricing Service™** receive regular updates of actual transactions and bid levels on **GovGex** - including loan details and high premium and par bids. Recent reports show P+2.75 transactions at **104%** to mid **109%** range**,** with only slight changes in loan structure driving premiums. Lenders use the pricing service to structure deals in light of what the market is currently valuing. The **GovGex Independent Pricing Service** is the only service to provide *actual bid levels based on real transactions* as seen on **GovGex**.

About GovGex.com

GovGex is the secure online exchange for selling SBA and USDA loans. **GovGex** works with a network of over 20 Buyers to ensure loans receive full exposure. **GovGex** is an independent source for secondary market pricing information - built on actual bid levels as seen on **GovGex** from all the Buyers. Contact **GovGex** for all of your secondary market needs.

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Value Indices Mixed in June

The GLS Value Indices displayed moderate decreases in 5 out of 6 buckets, with the largest sector, the long-end, showing a slight increase.

With the secondary market again rising by approximately 1% in June, the continued increase in the Base Rate / Libor Spread combined with a low prepayment element, kept the indices close to May levels.

For the fourth month in a row, the Base Rate / Libor Spread increased, hitting 2.70%, a 13 basis point increase from May and a 60 basis point rise since February of this year.

Turning to the prepayment element, speeds decreased in three out of six indices. The long-end index (VI-6) witnessed a slight increase of CPR .04% over May levels. Most changes were small (<5%), except for a 11.95% decrease for the 16-20 year maturity sector.

Looking at the index values, the only increase was in the GLS VI-6 (20+ maturities), which increased by 5.94% to 212.8 basis points. This is the second highest reading on record, only exceeded by the December, 2008 value of 238.6 bps.

Amongst the other five indices, the largest decrease was in the VI-1 (<8), which fell by 20.49% to 144.8 basis points. Other decreases, by order of magnitude, were VI-3 (10-13), -8.25% to 137.3, VI-2 (8-10), -6.10% to 130.3, VI-5 (16-20), -4.48% to 183.8 and lastly VI-4 (13-16), -.06% to 200.2.

With the basis spread returning to more normal levels and prepayments at multi-year lows, the recovery in the secondary market would seem warranted from a "value" perspective. As long as these trends continue, pricing in the secondary market should remain firm.

For further information on the GLS Value Indices, please refer to the "Glossary and Definitions" at the end of the report.

Data on pages 13-14, Graph on page 15

7(a) Secondary Market Pricing Grid: June 2009

Maturity	Gross Margin	Fees	Servicing	6/30/2009 Price	Last Month Price	3-Mos. Ago Price	6-Mos. Ago Price	Net Margin
10 yrs.	2.00%	0.6750%	**1.0000%**	**106.50**	**105.50**	**103.75**	**102.375**	0.325%
15 yrs.	1.50%	0.6750%	**1.0000%**	**104.875**	**104.00**	**102.50**	**101.00**	-0.175%
20 yrs.	1.50%	0.6750%	**1.0000%**	**105.125**	**104.375**	**103.00**	**100.25**	-0.175%
25 yrs.	1.50%	0.6750%	**1.0000%**	**105.50**	**104.50**	**103.25**	**100.50**	-0.175%

Content Contributors

The editors of the "CPR Report" would like to thank the following secondary market participants for contributing to this month's report:

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Mike White at: (901) 435-8404, or via e-mail at Michael.white@ftnfinancial.com

COASTAL SECURITIES, INC.

Coastal Securities is a Texas based broker/dealer and is a major participant in the secondary market for SBA 7(a) and USDA government guaranteed loans.

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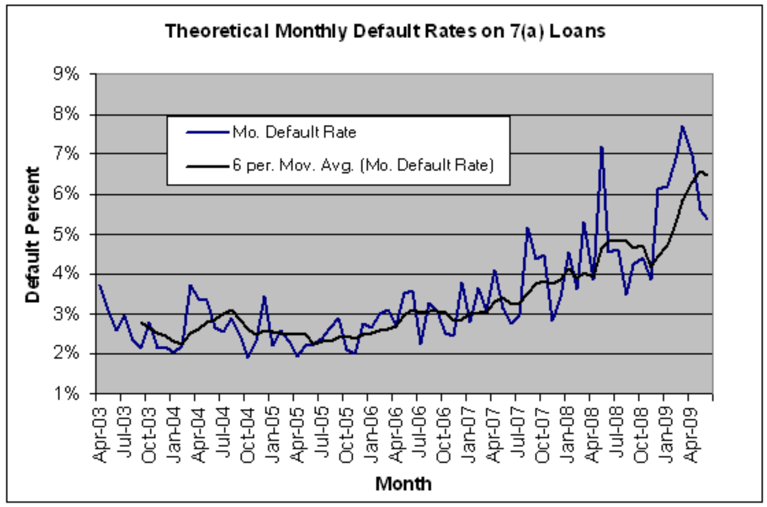
DEFAULT RATE STAYS BELOW 6%

For the third month in a row, the theoretical default rate declined, hitting 5.39% in June. Since March, the default rate has fallen by 30%, after hitting a decade high of 7.68% in that month.

The 5.39% reading is the lowest this year, suggesting that, for the time being, 7(a) defaults have begun to decrease from the decade highs of early 2009.

Turning to the actual data, the dollar amount of defaults actually increased by $14 million, moving from $121.7 million to $135.8 million. Due to the low prepayment speeds seen this year, the outstanding balance of SBA pools continues to increase. Therefore, an actual increase in the dollar amount of defaults, spread over a larger outstanding balance of SBA loans, led to a lower overall default rate.

With the default rate having decreased for the third month in a row, it is hard to ignore the fact that the worst part of the recession may be behind us. This would be welcome news to all who participate in the SBA lending community.



DEFAULT RATIOS: 504 HITS RECORD HIGH

While the 7(a) default ratio continues to decrease, the 504 ratio increased to a record high in June. As has been the case for the past year, both ratios continued the trend of recession-level readings of 30%+ for 7(a) and 20%+ for 504 loans.

Below we attempt to analyze these results:

SBA 7(a) Default Ratios

For the fourteenth month in a row, the 7(a) default ratio exceeded 30%, well above our recessionary hurdle rate of 20%.

The dollar amount of defaults increased by 11.59% to $135.8 million from $121.7 million in May. Voluntary prepayments increased by 11.82% to $70 million, up slightly from the decade low of $62.6 million in May.

While we are seeing better performance for 7(a) loans, we still expect the default ratio to remain above 50% into next year.

SBA 504 Default Ratios

Also for the fourteenth month in a row, the 504 default ratio came in above 20%, which is our threshold for recessionary conditions in the 504 small business sector.

After a one-month respite, the 504 default ratio set another record, hitting 63.62%, a 1.59% increase over the previous high in April, 2009.

Specifically, the dollar amount of defaults increased 9.55% to a record $88.3 million from $80.6 million. Voluntary prepayments decreased by $5.4 million to $50.5 million, or -9.66% from May.

Summary

While the 7(a) default ratio seems to be trending down, the 504 ratio resumed its rise to record levels. In fact, it is possible that the 504 ratio will exceed the 7(a) ratio in a few months, a surprise since 504 loans are generally considered to be better credits.

Graph on page 19

NEW 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
Jan-06	18.48%	17.14%	16.95%	13.99%	16.33%	19.23%
Feb-06	19.11%	17.71%	16.26%	14.05%	17.38%	19.73%
Mar-06	17.77%	17.57%	15.15%	14.19%	17.91%	19.51%
Apr-06	18.11%	17.27%	14.15%	14.36%	19.55%	20.04%
May-06	18.84%	17.05%	13.80%	14.99%	19.00%	20.39%
Jun-06	19.80%	18.23%	13.34%	15.88%	19.57%	21.59%
Jul-06	20.48%	19.32%	13.77%	16.88%	19.58%	22.41%
Aug-06	19.27%	19.32%	14.15%	17.76%	20.10%	23.06%
Sep-06	20.33%	19.89%	14.29%	18.83%	20.84%	24.55%
Oct-06	19.72%	19.72%	14.32%	19.17%	20.42%	24.51%
Nov-06	18.17%	19.54%	14.82%	19.32%	20.91%	24.83%
Dec-06	16.78%	18.62%	14.44%	18.97%	20.67%	24.48%
Jan-07	16.44%	17.36%	13.95%	18.23%	20.89%	24.14%
Feb-07	17.47%	17.00%	13.86%	17.95%	21.81%	24.21%
Mar-07	16.07%	16.65%	13.54%	17.22%	20.95%	23.23%
Apr-07	16.21%	16.49%	13.55%	17.99%	19.52%	23.13%
May-07	18.09%	17.35%	13.47%	18.38%	19.68%	22.95%
Jun-07	18.39%	17.03%	13.89%	18.96%	20.60%	22.97%
Jul-07	18.52%	17.35%	14.00%	19.55%	20.25%	23.25%
Aug-07	17.72%	17.15%	13.56%	19.48%	18.01%	23.10%
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%

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

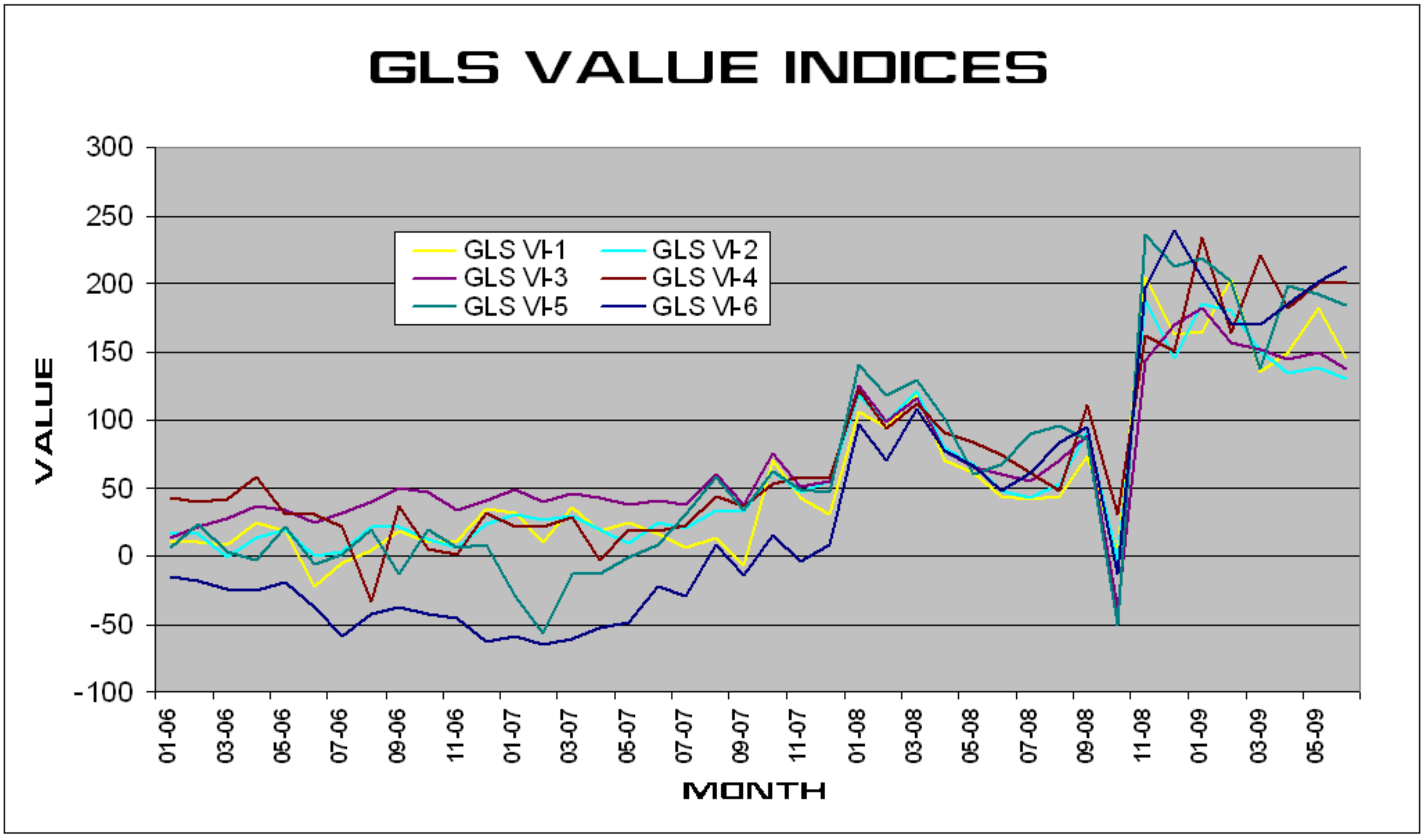
NEW VALUE INDICES: HISTORICAL VALUES

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
Jan-06	4.58%	7.28%	2.70%	11.0	17.2	12.7	43.5	6.1	-15.3
Feb-06	4.74%	7.50%	2.76%	10.0	16.3	21.3	39.5	23.7	-18.3
Mar-06	4.89%	7.56%	2.66%	7.0	-1.4	27.0	42.5	3.1	-25.0
Apr-06	5.03%	7.75%	2.72%	24.2	13.1	36.4	57.6	-3.6	-25.5
May-06	5.18%	7.94%	2.76%	18.4	18.8	33.5	30.2	21.0	-19.5
Jun-06	5.37%	8.03%	2.66%	**-22.8**	-0.1	25.0	29.6	-6.4	-37.9
Jul-06	5.48%	8.25%	2.77%	-5.9	3.6	31.2	22.0	0.9	-59.1
Aug-06	5.40%	8.25%	2.85%	3.8	21.4	39.8	**-33.9**	19.7	-43.5
Sep-06	5.37%	8.25%	2.88%	17.8	21.0	49.8	36.2	-12.4	-38.1
Oct-06	5.37%	8.25%	2.88%	10.0	11.3	46.3	5.4	19.1	-43.5
Nov-06	5.37%	8.25%	2.88%	10.9	7.0	33.7	1.4	6.2	-46.7
Dec-06	5.36%	8.25%	2.89%	34.6	24.0	41.1	31.0	8.0	-63.8
Jan-07	5.35%	8.25%	2.90%	31.0	29.8	48.6	21.3	-30.1	-59.4
Feb-07	5.36%	8.25%	2.89%	9.2	25.4	39.4	21.3	**-57.0**	**-65.7**
Mar-07	5.34%	8.25%	2.91%	35.9	28.9	45.0	28.5	-12.7	-60.9
Apr-07	5.35%	8.25%	2.90%	18.8	19.4	43.4	-2.9	-12.5	-53.0
May-07	5.35%	8.25%	2.90%	24.5	8.5	37.6	18.9	-1.4	-50.0
Jun-07	5.36%	8.25%	2.89%	16.3	25.2	40.6	18.6	7.0	-22.1
Jul-07	5.35%	8.25%	2.90%	6.8	20.9	38.1	22.2	30.1	-29.9
Aug-07	5.48%	8.25%	2.77%	12.9	33.5	59.8	43.6	57.8	7.0
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

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

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



YTD Prepayment Speeds

Table 3:

CPR/MO.	<8	8 - 10	10 - 13	13 - 16	16 - 20	20+	ALL
Jan-09	16.67%	9.11%	10.27%	10.30%	8.75%	9.67%	**9.94%**
Feb-09	10.84%	11.48%	13.12%	7.36%	8.85%	8.09%	**9.67%**
Mar-09	14.52%	14.16%	11.41%	9.86%	12.85%	7.42%	**9.52%**
Apr-09	11.84%	12.82%	14.16%	8.76%	6.40%	8.74%	**10.30%**
May-09	11.75%	13.00%	13.47%	8.35%	9.99%	7.74%	**9.79%**
Jun-09	13.31%	10.45%	11.73%	6.60%	5.30%	6.42%	**8.10%**
Jul-09	12.14%	10.19%	11.09%	10.45%	5.69%	5.70%	**7.82%**
Grand Total	**13.03%**	**11.60%**	**12.18%**	**8.83%**	**8.30%**	**7.69%**	**9.31%**

2009 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-09	21 Mos.	27 Mos.	23 Mos.	59 Mos.	42 Mos.	47 Mos.	**39 Mos.**
Feb-09	21 Mos.	27 Mos.	23 Mos.	59 Mos.	43 Mos.	47 Mos.	**40 Mos.**
Mar-09	21 Mos.	28 Mos.	24 Mos.	60 Mos.	43 Mos.	47 Mos.	**40 Mos.**
Apr-09	22 Mos.	27 Mos.	25 Mos.	61 Mos.	43 Mos.	47 Mos.	**41 Mos.**
May-09	22 Mos.	27 Mos.	26 Mos.	62 Mos.	43 Mos.	48 Mos.	**41 Mos.**
Jun-09	23 Mos.	28 Mos.	26 Mos.	62 Mos.	43 Mos.	48 Mos.	**42 Mos.**
Jul-09	23 Mos.	26 Mos.	27 Mos.	63 Mos.	44 Mos.	49 Mos.	**42 Mos.**

2009 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-09	7.35%	31.58%	10.94%	15.95%	2.41%
Feb-09	13.53%	10.26%	6.52%	4.50%	21.72%
Mar-09	9.36%	19.91%	14.43%	15.20%	18.36%
Apr-09	16.19%	11.44%	8.89%	5.24%	6.89%
May-09	14.49%	13.28%	6.28%	10.88%	10.10%
Jun-09	15.17%	12.41%	11.87%	18.19%	6.68%
Jul-09	10.01%	15.56%	12.53%	11.63%	2.41%
Grand Total	**12.35%**	**16.79%**	**10.26%**	**11.87%**	**9.80%**

10-13 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-09	9.56%	13.20%	7.40%	8.64%	8.76%
Feb-09	10.87%	16.62%	12.39%	8.83%	11.78%
Mar-09	11.51%	14.64%	9.99%	5.24%	7.45%
Apr-09	7.86%	20.69%	12.62%	15.73%	6.49%
May-09	11.87%	17.74%	12.49%	9.50%	8.90%
Jun-09	13.83%	14.17%	10.21%	7.70%	5.97%
Jul-09	9.11%	15.37%	9.97%	7.13%	7.17%
Grand Total	**10.64%**	**16.09%**	**10.78%**	**8.94%**	**8.05%**

16-20 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-09	5.25%	6.38%	17.21%	6.73%	10.29%
Feb-09	0.00%	13.17%	5.76%	4.81%	12.03%
Mar-09	8.52%	19.83%	4.91%	10.43%	12.05%
Apr-09	6.41%	2.64%	5.11%	0.89%	12.02%
May-09	1.01%	8.14%	14.23%	10.61%	13.93%
Jun-09	1.10%	5.73%	10.50%	0.77%	5.97%
Jul-09	0.00%	4.86%	10.76%	2.32%	7.30%
Grand Total	**3.42%**	**8.94%**	**9.83%**	**5.28%**	**10.55%**

8-10 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-09	7.89%	12.32%	8.52%	3.96%	12.50%
Feb-09	11.59%	11.43%	15.08%	5.57%	12.29%
Mar-09	11.28%	22.85%	10.72%	10.13%	12.67%
Apr-09	12.82%	21.12%	11.37%	5.64%	7.08%
May-09	11.09%	21.71%	8.76%	6.27%	10.23%
Jun-09	6.57%	16.04%	8.81%	6.67%	10.70%
Jul-09	5.85%	18.36%	8.90%	5.97%	8.92%
Grand Total	**9.55%**	**18.01%**	**10.41%**	**6.32%**	**10.62%**

13-16 BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-09	0.00%	9.70%	0.00%	10.03%	11.28%
Feb-09	20.67%	4.28%	0.00%	7.21%	7.03%
Mar-09	0.00%	2.39%	14.62%	5.15%	12.71%
Apr-09	8.89%	9.78%	0.00%	4.95%	10.55%
May-09	0.00%	32.61%	0.00%	6.13%	8.85%
Jun-09	0.00%	15.88%	0.55%	4.14%	7.32%
Jul-09	0.00%	0.00%	29.55%	11.09%	9.84%
Grand Total	**5.17%**	**9.46%**	**9.09%**	**7.00%**	**9.64%**

20+ BY AGE	0-12 Mos.	13-24 Mos.	25-36 Mos.	37-48 Mos.	48+ Mos.
Jan-09	10.77%	12.40%	10.16%	7.43%	8.21%
Feb-09	3.56%	6.57%	12.17%	5.72%	9.25%
Mar-09	6.12%	9.38%	7.45%	5.64%	7.61%
Apr-09	7.53%	12.23%	10.84%	5.36%	7.91%
May-09	6.47%	9.24%	10.55%	4.41%	7.66%
Jun-09	5.38%	9.05%	5.77%	1.86%	7.58%
Jul-09	3.75%	5.89%	6.95%	6.22%	5.59%
Grand Total	**6.33%**	**9.24%**	**9.29%**	**5.17%**	**7.66%**

2009 YTD CPR by maturity and age bucket. Source: Colson Services

GLOSSARY AND DEFINITIONS: PART 1

Default Ratios

Default ratios, or the percentage of secondary loan prepayments 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 default ratios 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 default ratio 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 ratio 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) default ratios and 15% or greater on 504 default ratios 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:

$$\textit{Total Pool CPR} = \textit{VCPR} + \textit{DCPR}$$

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.

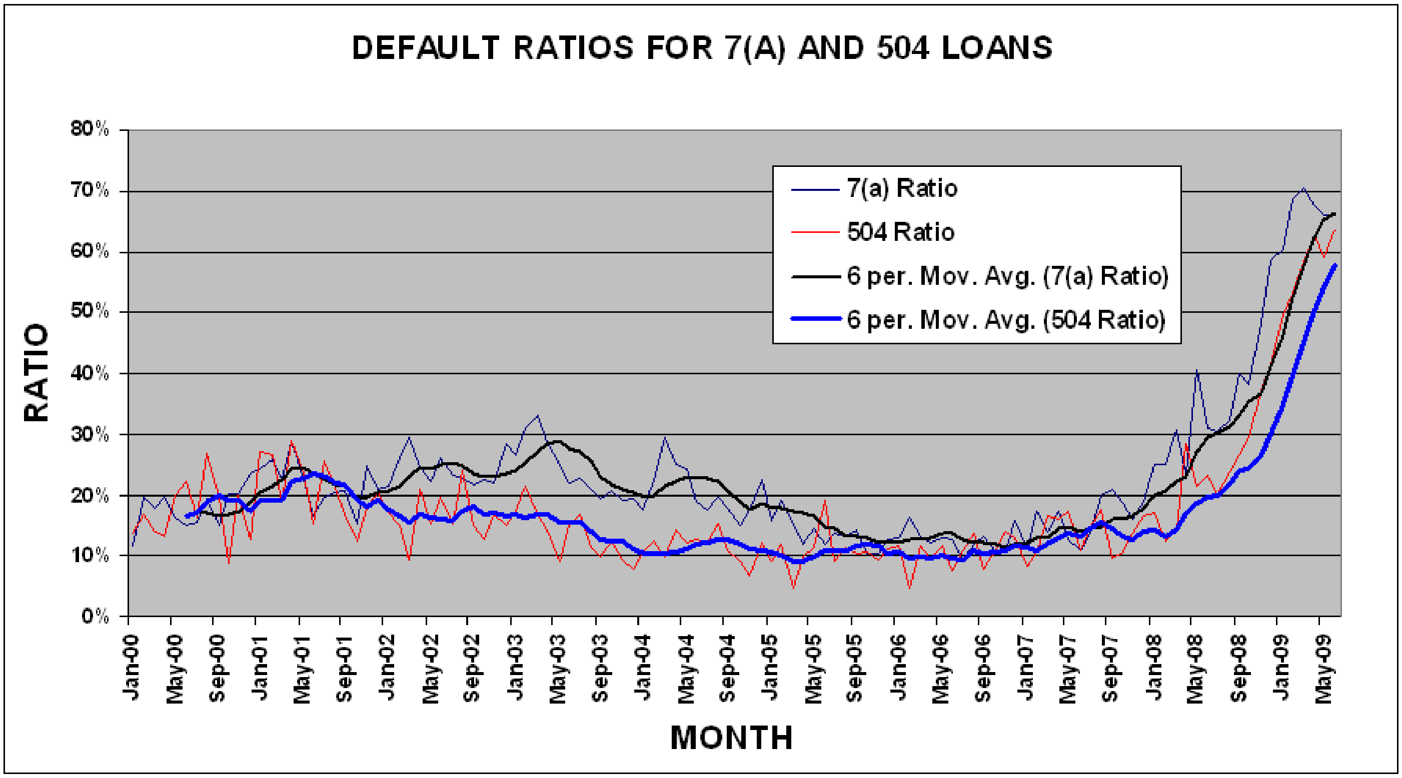
TALF

The TALF, or **Term Asset-Backed Security Loan Facility**, was announced by the Federal Reserve Bank and the US Treasury on November 25, 2008. The purpose of the TALF is to make credit available to consumers and small businesses on more favorable terms by facilitating the issuance of asset-backed securities (ABS) and improving the market conditions for ABS more generally.

The most recent update was released by the Federal Reserve on May 19th, 2009.

The Federal Reserve Bank of New York will make up to $1 trillion of loans under the TALF. TALF loans will have a term of three years; will be non-recourse to the borrower; and will be fully secured by eligible ABS. The US Treasury Department will provide $100 billion of credit protection to the Federal Reserve in connection with the TALF.

SBA Pools issued in 2008 and beyond are considered eligible securities. SBA Pools are eligible for 3 or 5 year TALF loans.


DEFAULT RATIOS FOR 7(A) AND 504 LOANS
RATIO
80%
70%
60%
50%
40%
30%
20%
10%
0%
7(a) Ratio
504 Ratio
6 per. Mov. Avg. (7(a) Ratio)
6 per. Mov. Avg. (504 Ratio)
Jan-00
May-00
Sep-00
Jan-01
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