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Government Loan Solutions' CPR Report

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

Volume 5, Issue #8

August, 2011

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 Below 6%
- SMA: FMLP Prepayments
- Default Rate Stays Below 3%
- Value Indices Mostly Higher

Prepayment Speeds Rise Slightly, Stay Below 6%

After a stellar June report that showed a record low CPR, July inched higher, but still recorded the second lowest reading on record, coming in at 5.37%.

Through the first seven months of the year, the highest CPR reading we have seen in any one month is 6.70% from April.

For the second month in a row, we saw the default CPR come in below 3%, a surprising result considering the well-advertised lack of economic growth in the US. Regardless of the cause of the low default CPR, a low reading is welcome. With voluntary prepays coming in once again below 3%, it is the Default CPR that

Continued on page 2

SMA: Volume Update and Prepayment Speeds

By Jordan Blanchard

Volume

Three pools settled in August for a total of $11,591,202 (80% guaranteed interest). There were 9 loans pooled. The largest pool was $4,895,248. The smallest was $2,889,071.

Total FMP volume through August, 2011, stands at $157,595,529. There have been 27 pools issued to date with an average guaranteed interest of just under $6,000,000. The total number of loans pooled stands at 123 with a gross loan average of $1,277,940.

Fourth Annual Secondary Market Forum

Do you want to learn more about the First Mortgage Lien Pool program? If so, then consider attending the <u>4th Annual SBA Secondary Market Forum</u> in Washington, D. C. on September 21st (reception) and 22nd (conference). Last year's conference was very informative and this year's conference is expected to have even more participants from all aspects of the FMP program. Expected attendees include:

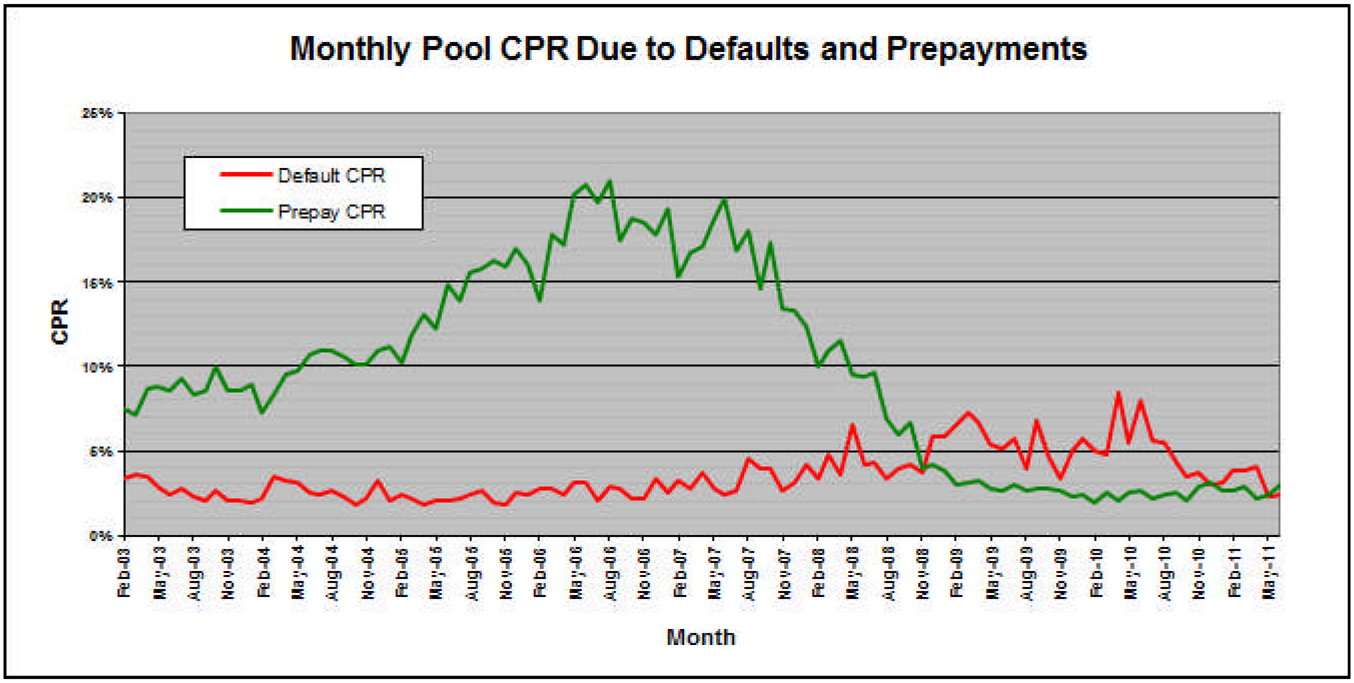
- Bank and non-bank lenders (sellers)
- Pool originators
- Investors

Continued on page 5

SMALL BUSINESS FACT OF THE MONTH

According to a 2010 Report by the Kauffman Foundation, ***<u>100% of net job growth</u>*** comes from entrepreneurial start-ups. Over the past 35 years, job growth at large, or incumbent businesses, has actually been ***<u>negative</u>***.

Prepayment Speeds...Continued



has pushed overall CPRs near 5% as we move into the fall.

Turning to the specifics, overall speeds came in at 5.37%, a 17% increase from June's record low reading of 4.58%. July continues the unbroken streak of 10 consecutive months of sub-7% prepay speeds.

As for next month, preliminary data from Colson suggests another visit below 5%, possibly even lower than June's record low reading.

The YOY comparison to 2010 continues to show 2011 significantly below last year, with YTD prepayment speeds in 2011 at 5.87% versus 2010 at 8.38%.

Turning to the default/ voluntary prepayment breakdown, the **Voluntary Prepay CPR** (green line) rose to 2.94% from 2.35%, remaining in a stable trend between 2% and 3% for yet another month.

While the VCPR remained below 3%, the **Default CPR** (red line) stayed below the VCPR, rising to 2.44% from 2.22% in June.

Last month, prepayment speeds rose in three out of the six maturity categories. Increases were seen, by order of magnitude, in the 20+ sector (+38% to CPR 5.26%), <8 (+35% to CPR 12.92%) and 16-20 (+13% to CPR 6.35%).

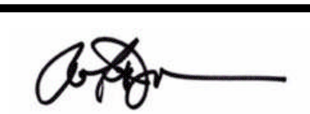
Decreases were seen, also by order of magnitude, in 10-13 (-12% to CPR 4.37%), 13-16 (-4% to CPR 4.16%) and 8-10 (-2% to CPR 7.89%).

In summary, another stellar month from a prepayment perspective, with more good news likely to come.

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.

"For the second month in a row, we saw the default CPR come in below 3%, a surprising result considering the well-advertised lack of economic growth in the US."

Data on pages 18-20



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

Don't Miss the 4th Annual 2011 SBA Secondary Market Forum

*This one day forum is **MUST** for all who participate in the SBA's secondary market .*
It's the only event dedicated to the current state of the secondary market and it's future.

Thursday, September 22, 2011
9 am to 3 pm

(Reception the prior evening)

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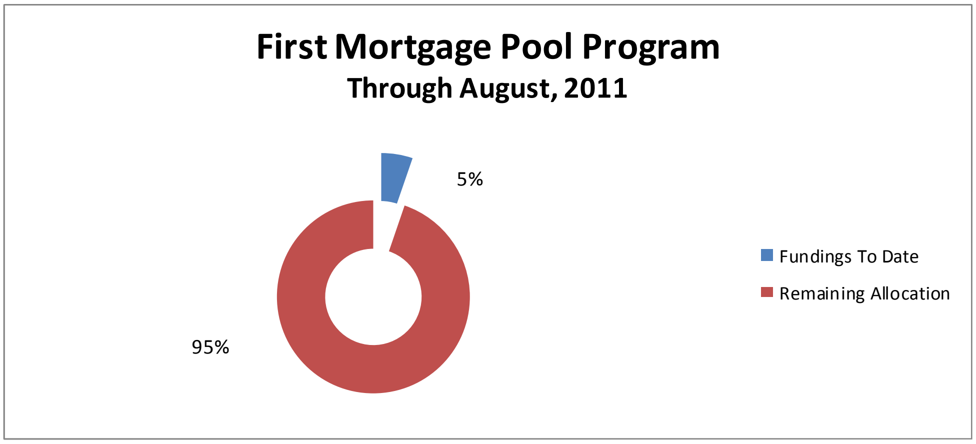
SECONDARY MARKET ACCESS...CONTINUED

- FMP settlement providers
- Warehouse lenders (first mortgage)
- Bridge loan lenders (second mortgage)

FMP is just one of the topics that will be covered. Additional topics include SBA 7A, USDA, and Community Advantage 7A. More information can be found at the following link:



http://www.colemanpublishing.com/public/3884.cfm

Letter Requesting SBA Action For Modification & Extension Of The FMP Program

Immediately after the Secondary Market Forum, a "Call to Action" letter will be delivered to SBA from supporters of the FMP Program. The FMP Program has been a valuable tool to assist in the re-establishment of the secondary market for SBA 504 First Trust Deeds resulting in more capital flowing to job-creating small businesses.

Unfortunately the benefits of this program to lenders and small businesses are being hampered by the current program eligibility criteria established by SBA, and by the pending sunset date of September, 2012. Due to these factors, those projects that create the most jobs for local economies involving business expansion through new construction are now excluded from the program because lender cannot be assured the construction will be completed and the Debenture funded before the sunset date.

How can SBA help?

SBA can simply modify the eligibility criteria from 'funded by' September of 2012 to 'approved by' September of 2012. This would then allow ground-up construction projects to proceed where they are now simply being declined, as well as extending the useful life of this valuable program.

SBA can also support a legislative extension for the program that can insure continued program access and address statutory issues that simplify and reduce program costs associated with SBA and Colson's administration of the program.

If you are a lender, pool originator or investor that supports extending this zero-subsidy program, please send an email to jblanchard@cdcloans.com. You will receive a copy of the "Call to Action" letter and be added to the letter signatories.

Thanks in advance for your support!

Settlement Services

It's no secret. Structuring, pricing, and settling FMP pools is rather complicated and time consuming. But there is help. Government Loan Solutions (publisher of the CPR Report) has become the leading (and only) third party outsourced solution for pool originators. If you are currently a pool originator, or plan on becoming a pool originator, GLS can assist you. A partial list of services is noted below:

- Premium estimate on individual loans
- Bid procurement
- 2401 completion
- 2403 completion
- Gain on sale calculation
- Servicing valuation
- Note structuring to avoid fixed interest rate risk

GLS was recently able to beat the high bid obtained by a pool originator by almost 10%. This is not an insignificant sum on a multi-million dollar pool, and was significantly more income than the cost of hiring GLS who handled every aspect of FMP settlement. Interested parties can contact Bob Judge at bob.judge@glsolutions.us for more information.

FMP Tips…

Please note that while the payment is auto debited on the first, Colson does not remit the payment to the lender, pool originator or investor until the 15th. This delay is necessary because even an ACH auto deduction can be charged back for a brief period of time.

Continued on next page

SECONDARY MARKET ACCESS...CONTINUED

FMLP Pool Prepayments for YTD 2011

MO/WAM BUCKET	<192 Mos.	192-263 Mos.	264-288 Mos.	289+ Mos.	Total by Month
Jan-11	0.00%	0.00%	0.12%	0.00%	**0.09%**
Feb-11	0.00%	0.00%	0.00%	0.00%	**0.00%**
Mar-11	0.00%	0.00%	0.00%	0.00%	**0.00%**
Apr-11	0.00%	0.00%	0.00%	0.00%	**0.00%**
May-11	0.00%	0.00%	11.49%	3.49%	**9.28%**
Jun-11	1.04%	0.00%	0.00%	0.00%	**0.06%**
Jul-11	0.00%	0.00%	0.00%	0.00%	**0.00%**
Aug-11	0.00%	0.00%	0.00%	0.13%	**0.03%**
Total by WAM Bucket	**0.35%**	**0.00%**	**1.62%**	**0.43%**	**1.23%**

CPR by Month and Weighted Average Maturity Bucket, 2011

MO/WAM BUCKET	FIXED RATE	FHLB VARIOUS	PRIME RATE	5 YR LIBOR SWAP	Total by Month
Jan-11	0.16%	0.00%	0.00%	0.13%	**0.09%**
Feb-11	0.00%	0.00%	0.00%	0.00%	**0.00%**
Mar-11	0.00%	0.00%	0.00%	0.00%	**0.00%**
Apr-11	0.00%	0.00%	0.00%	0.00%	**0.00%**
May-11	34.52%	0.00%	0.00%	1.88%	**9.28%**
Jun-11	0.00%	0.00%	0.15%	0.00%	**0.06%**
Jul-11	0.00%	0.00%	0.00%	0.00%	**0.00%**
Aug-11	0.00%	0.00%	0.06%	0.00%	**0.03%**
Total by Reset	**5.16%**	**0.00%**	**0.03%**	**0.25%**	**1.23%**

CPR by Month and Reset Type, 2011

Consider collecting one month's payment upfront to avoid the possibility of a 30 day late caused by borrower confusion or delayed billing statements. A 30 day late will cause a loan not be poolable for at least 6 months.

Interim interest on the second mortgage can be financed as part of the 504 project. This can assist the borrower by allowing them to conserve working capital and finance moving expenses. It also increases the lender's first mortgage.

FMLP Prepayment Analysis

By Robert Judge

Since the FMLP Program will celebrate it's one year anniversary this month, I felt it was time to look back at how prepayments are going in the program. As can be seen from the above charts, they have been extremely low. Of course, the total number of pools is low and the timeframe short, but we haven't witnessed any large, sustained prepayments over the past year.

I have chosen to break out the 504 pool data by WAM buckets, which are mostly based on production numbers. Additionally, I have broken them out by reset type, as defined in the Colson data.

At this stage, there isn't much to say about prepayments except that they have been low; even lower than 7a for comparable pool ages.

Over time, we will delve deeper into prepayments, as well as keep you up to date on how 504 pools are performing on a monthly basis.

In the meantime, we offer this initial dataset for your reading enjoyment.

Secondary Market Access

Secondary Market Access (SMA) is an Ohio-based corporation 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.

Direct Capital
SBA 504 Secondary Market Solutions

Morgan Stanley

SBA 504 FIRST MORTGAGE PROGRAM
Loan Premiums

INTEREST RATE PAR SPREADS		
INTEREST RATE INDEX	RESET FREQUENCY	SPREAD
90 Day LIBOR Swap Rate	Every 90 days	3.00%
3 Year Swap Rate	Every 3 years	3.00%
5 Year Swap Rate	Every 5 years	3.00%
10 Year Swap Rate	10 years followed by every 5 years	3.25%
20 Year Swap Rate	Fixed for life (up to 25 years)	3.40%

- *Each 0.25% in rate above the par rate earns 1% in premium*
- *The initial rate will be the interest rate floor*
- *Swap rates are published under Libor Swaps (USD) at: http://online.wsj.com/mdc/public/page/2_3020-moneyrate.html?mod=topnav_2_3010*

PREPAYMENT PENALTY OPTIONS			
PREPAYMENT PENALTY	QUARTERLY ADJUSTABLE	3 & 5 YR RESETS	10 YR RESET & FIXED
Declining 5%, 4%, 3%, 2%, 1%	1.00%	Required	Not Available
Flat 5% for first 5 Years	1.50%	.50%	Required
Declining 7%, 6%, 5%, 4%, 3%, 2%, 1%	1.75%	.75%	.25%
Flat 5% for years 1-6, declining 4%, 3%, 2%, 1% for years 7-10	2.00%	1.00%	.50%
Declining 10%, 9%, 8%, 7%, 6%, 5%, 4%, 3%, 2%, 1%	2.50%	1.50%	1.00%
Flat 10% for first 10 years	3.50%	2.50%	1.50%

- *Borrower may make annual additional principal reductions without penalty up to 20% of the original note balance.*
- *The referring lender retains any origination fee. Note, Morgan Stanley will keep .50% to pay the SBA participation fee.*
- *Lenders who fund at least $5 million in a calendar year will receive an annual volume incentive.*

PREMIUM EXAMPLE FOR $1 MILLION SBA 504 FIRST MORTGAGE LOAN		
DESCRIPTION	OPTION	PREMIUM
Interest Rate	10-year swap + 4.40%	4.00%
Prepayment Penalty	10%, 9%, 8%, 7%, 6%, 5%, 4%, 3%, 2%,	1.00%
Total Premium	1%	5.00%

- *The premium cannot exceed the first year's prepayment penalty %.*
- *A 365/360 rate accrual basis is required. The premium will be reduced by .50% if another basis is used.*
- *Only banks, thrifts and other regulated lenders are eligible to earn loan premiums.*

FOR MORE INFORMATION CONTACT:

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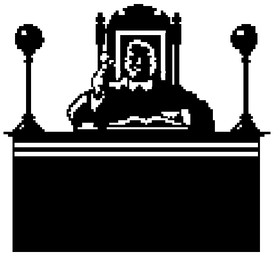


The Legal Beat

Educating Third-Party Lenders

By Jessica L. Conn, Esq.

Entering into the world of 504 lending can be somewhat daunting for a lender since SBA has so many rules and regulations that apply to the third party lender's portion of the transaction. That being said, the 504 program can expand a lender's credit box to borrowers or projects that the lender could not or would not finance conventionally, while leaving the lender with a first position lien and a 50% loan to value ratio.

For starters, the third party lender should make sure that the terms of the third party loan are in compliance with the SBA regulations. The third party loan cannot mature earlier than 10 years from the closing of the 504 loan for a project that finances commercial real estate. For equipment loans, the third party loan cannot mature earlier than 7 years from the closing of the 504 loan. SBA also sets a maximum interest rate that the third party lender can charge. The maximum rates are changed by SBA from time to time, but currently the maximum rate is the lesser of: (i) the maximum rate that can be charged by state law in the state in which the transaction is occurring, or (ii) Wall Street Journal Prime plus six percent (6.00%). The third party lender also must fully advance the third party loan at or prior to the 504 closing. Once the 504 loan is closed, the third party lender may not make any future advances on its loan.

There are certain SBA regulations that require lenders to document and/or disburse their loans in a slightly different manner than if the loan were true conventional financing. For example, the third party loan must not be cross-defaulted or cross-collateralized with any other loans made by the third party lender. The SOP states that the loan documents evidencing the third party loan must not contain any provisions "which allow the third party lender to make demand prior to maturity unless the loan is in default." Also, the third party lender must certify that the entire loan has been advanced prior to the closing of the 504 loan. Third party lenders may be tempted to disburse loan proceeds into an escrow account in order to make this certification, however, in the eyes of the SBA, the loan has not yet been fully disbursed since the proceeds have not been delivered to their intended beneficiary. This issue arises most frequently in the context of construction financing. For a variety of reasons, a state or local municipality may require that a borrower performing major construction post a letter of credit to ensure completion of certain elements of the project. In some cases, it is possible for a borrower to complete construction and obtain a permanent certificate of occupancy prior to the letter of credit being released. If the letter of credit is secured by either the third party loan documents or the interim loan documents, the 504 closing would be delayed until the letter of credit is released. This problem can be avoided by securing the letter of credit with a separate facility that is subordinate to the 504 lien on the project property.

The third party lender must also be sure to abide by those regulations designed to protect the SBA's subordinate interest in the project property. For example, the third party lender must provide the CDC with written notice of a default within 30 days of the default and at least 60 days prior to foreclosure. Additionally, the portion of the third party lender's lien that relates to late fees, default charges, default interest or penalties must be subordinate to the lien of the CDC. Also, SBA does not allow a third party lender to establish a preference for itself outside the context of the senior lien positions permitted by the authorization. In its loan application to SBA, the CDC should submit a bank letter, executed by the third party lender, which sets forth the terms of the third party loan. When preparing, or reviewing, this letter, the third party lender should make sure that the entire collateral structure of the third party loan is fully disclosed. Some items third party lenders should disclose in the bank letter include: whether the operating company is a co-borrower or guarantor; any additional guarantors, any stock or membership interest pledges, any collateral assignments of life insurance, any secondary collateral, and anything else that SBA may consider a preference. If the additional collateral is disclosed in the bank letter at the time of application and SBA approves or issues an authorization without requiring the CDC to take the same collateral, then SBA has consented to the preference.

Following these guidelines will help ensure that there are no delays in closing your 504 loan correctly. For more information regarding 504 loans, contact Jessica at jconn@starfieldsmith.com or 267-470-1188.

The 4th Annual 2011 SBA Secondary Market Forum

A day long discussion about the current state, trends and future of the secondary market for SBA 7a, 504 and USDA loans. Whether you are a seller, buyer or investor in government guaranteed commercial loans, you owe it to yourself to attend this Forum.

What you will take away from this event:

- Meet the key players in the industry.
- Hear about pricing, prepayment and structural trends in the secondary market.
- Discuss market strategies with your colleagues, partners and competitors.
- Find out about new opportunities in these markets.

For more information about attending this important event, please see our ad on page 3 of this report.

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.

GLS 7(a) Sale & Settlement Tip # 36— Respect the market ...

It's an interesting market that we operate in, of that there is no doubt. One of the things which makes it so, are the significant differences in the backgrounds of the market participants. As a seller, you need the liquidity provided by the dealer community.

Make sure you have a very good understanding of how they operate, what motivates them to bid high on some loans and low on others, and what you can do as a seller to make their process more fluid. Doing this not only demonstrates a respect for the market but just might make dealing with your institution worth a few extra dollars on your next bid list.

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 June, the GLS Value Indices came in mostly higher for the fifth month in a row, with four out of six indices rising and two decreasing.

The Base Rate / Libor spread was unchanged +3.01% and the prepayment element decreased in five out of six maturity categories, aiding the overall rise in the indices.

As can be seen from the chart below, the secondary market continues its relentless march to higher levels, whereby a 2.75% margin, long-end loan commands a price in the mid 114's.

Turning to the specifics, the largest increase was seen in the GLS VI-1, which rose by 18% to 123 basis points. The other increases, by order of magnitude, were: VI-2 (+6% to 123), VI-3 (+6% to 142) and VI-5 (+4% to 244).

The two decreases was seen in VI-4 (-19% to 178) and VI-6 (-1% to 218).

With prepayments at record lows, there appears to be ample support for current premium levels. However, there is something that is brewing that must be watched.

One concern we have is the slow increase in 1 month and 3 month Libor rates that we have seen over the past month, mostly due to credit concerns over European Banks. While we don't expect a repeat of late 2008 when 1 and 3 month Libor rates exceeded Prime, it does bear watching.

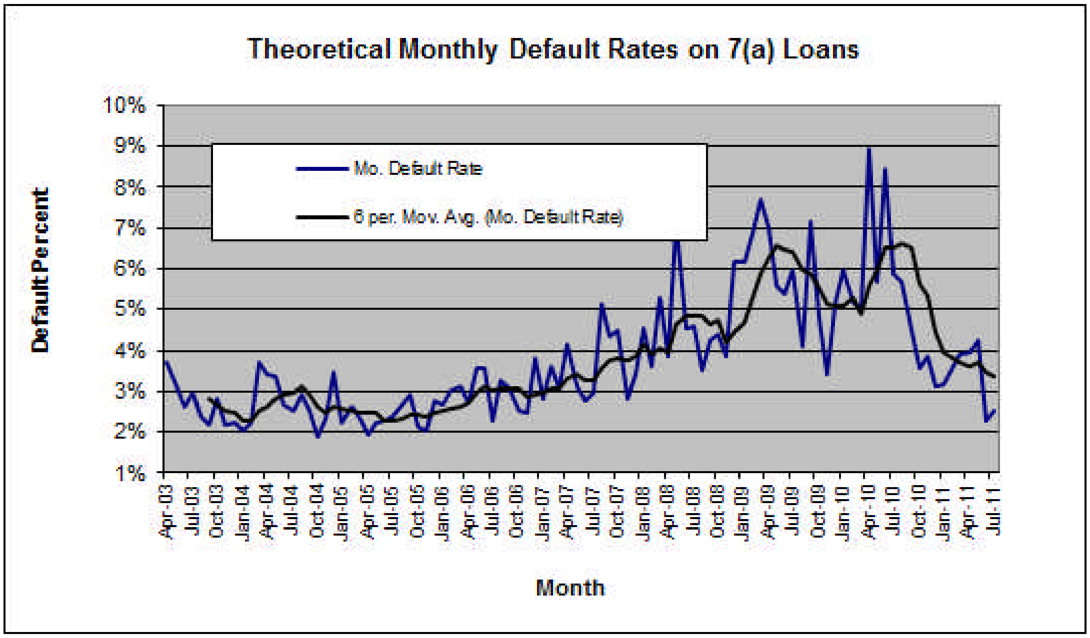
For further information on the terminology and concepts used in this article, please refer to the "Glossary and Definitions" at the end of the report.

Data on pages 15-16, Graph on page 17

7(a) Secondary Market Pricing Grid: June 2011

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%	111.25	111.125	110.75	110.75	110.55
15 yrs.	2.75%	1.075%	1.00%	111.40	111.325	111.125	111.50	110.875
20 yrs.	2.75%	1.075%	1.00%	113.75	113.50	113.25	113.25	112.125
25 yrs.	2.75%	1.075%	1.00%	114.50	114.20	114.00	114.00	112.50

DEFAULT RATE STAYS BELOW 3%



After the significant decrease we witnessed in May, the default rate remained below 3%, suggesting that last month's decrease may not be a fluke.

While the default rate rose slightly to 2.44% from 2.22%, this month's reading is excellent considering the weakness in the economy.

The chart at the right tells the tale. Since hitting 8% last June, the default rate has steadily decreased, except for a brief period of increases in February to April of this year.

Every month that goes by cements our belief that we have returned to default levels of 2005-2006. While logic would tell us that the near recessionary conditions in the US should be increasing default rates instead of decreasing them, the data does not lie. Until proven otherwise, things are looking better from a default perspective.

DEFAULT-CURTAILMENT RATIOS

In our Default-Curtailment Ratios (DCR) we witnessed a decrease in 7a and an increase in the 504 ratio.

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

The 7a DCR continued to stay below 50%, having fallen by 7% to 45.33% in June. This represents the second month in a row of sub-50% readings.

This month, defaults, on a dollar basis, rose slightly, but where more than offset by a rise in the voluntary prepayment element.

Turning to actual dollar amounts, defaults rose by 5% to $78 million from $75 million. As for voluntary prepayments, they rose by 13% to $94 million versus $79 million the previous month.

SBA 504 Default Ratios

While the 7a DCR continues to fall, the 504 DCR rose for the second month in a row. For June, the 504 DCR rose by 10% to 63.01% from 57.35% in May.

Both voluntary prepayments and defaults decreased, with voluntaries falling by a greater margin, increasing the ratio.

Specifically, the dollar amount of defaults decreased by $7 million to $101 million (-7%). As for voluntary prepayments, they fell by $21 million to $59 million (-26%).

Summary

While the 504 ratio rose, we did see a decrease in the default element, which is always welcome.

As for 7a, decreasing defaults and stable to rising voluntary prepayments continues to bring the ratio closer to 40%, signifying more balanced financing conditions.

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
Jan-08	15.70%	14.68%	13.94%	16.44%	17.45%	22.00%
Feb-08	15.91%	13.98%	14.17%	16.20%	17.53%	21.19%
Mar-08	15.58%	13.42%	13.25%	15.08%	15.41%	19.34%
Apr-08	16.16%	13.36%	13.02%	14.59%	15.19%	18.74%
May-08	15.48%	12.88%	12.65%	13.77%	14.33%	17.33%
Jun-08	15.28%	13.32%	12.96%	14.46%	13.62%	17.14%
Jul-08	15.69%	12.99%	12.78%	13.81%	12.49%	16.59%
Aug-08	15.44%	13.24%	12.86%	13.14%	12.24%	15.89%
Sep-08	14.02%	12.45%	12.75%	12.67%	12.36%	15.20%
Oct-08	12.97%	11.67%	12.14%	11.50%	11.97%	14.06%
Nov-08	12.08%	12.36%	11.44%	10.85%	11.49%	13.22%
Dec-08	12.37%	11.77%	10.45%	9.45%	11.08%	11.41%
Jan-09	12.86%	11.51%	10.42%	9.29%	10.61%	10.40%
Feb-09	12.30%	11.26%	10.35%	8.39%	9.99%	9.30%
Mar-09	12.96%	11.93%	10.56%	8.57%	10.47%	8.79%
Apr-09	13.23%	12.30%	11.22%	8.75%	9.81%	8.55%
May-09	13.12%	11.85%	11.79%	8.68%	9.92%	7.98%
Jun-09	13.18%	11.85%	12.35%	8.57%	8.73%	8.02%
Jul-09	12.40%	12.00%	12.51%	8.56%	8.23%	7.36%
Aug-09	13.34%	12.49%	12.36%	8.01%	7.34%	7.21%
Sep-09	12.74%	11.01%	11.83%	7.48%	6.70%	6.89%
Oct-09	12.45%	11.03%	11.31%	7.25%	7.85%	6.79%
Nov-09	12.11%	10.89%	11.01%	6.96%	7.13%	6.32%
Dec-09	11.33%	11.20%	10.55%	7.09%	7.80%	5.75%
Jan-10	11.16%	10.69%	10.30%	6.99%	8.00%	5.75%
Feb-10	10.05%	9.97%	10.00%	7.33%	8.84%	5.71%
Mar-10	9.90%	10.73%	10.07%	7.12%	8.75%	5.75%
Apr-10	9.96%	10.45%	9.72%	7.34%	8.12%	5.32%
May-10	10.56%	11.09%	10.28%	7.88%	8.53%	5.86%
Jun-10	10.94%	11.18%	10.41%	7.83%	8.53%	6.38%
Jul-10	10.32%	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	10.55%	9.24%	8.82%	7.05%	6.45%	7.21%
Dec-10	10.89%	8.48%	8.45%	7.30%	5.61%	7.11%
Jan-11	11.99%	8.87%	7.84%	7.49%	5.03%	5.96%
Feb-11	11.22%	9.01%	7.57%	7.22%	4.91%	5.53%
Mar-11	10.43%	8.86%	7.07%	7.20%	5.13%	5.37%
Apr-11	10.60%	9.69%	7.38%	6.90%	4.95%	5.17%
May-11	10.82%	9.75%	7.26%	6.11%	5.51%	5.45%
Jun-11	10.25%	9.69%	6.81%	5.39%	5.70%	5.12%

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

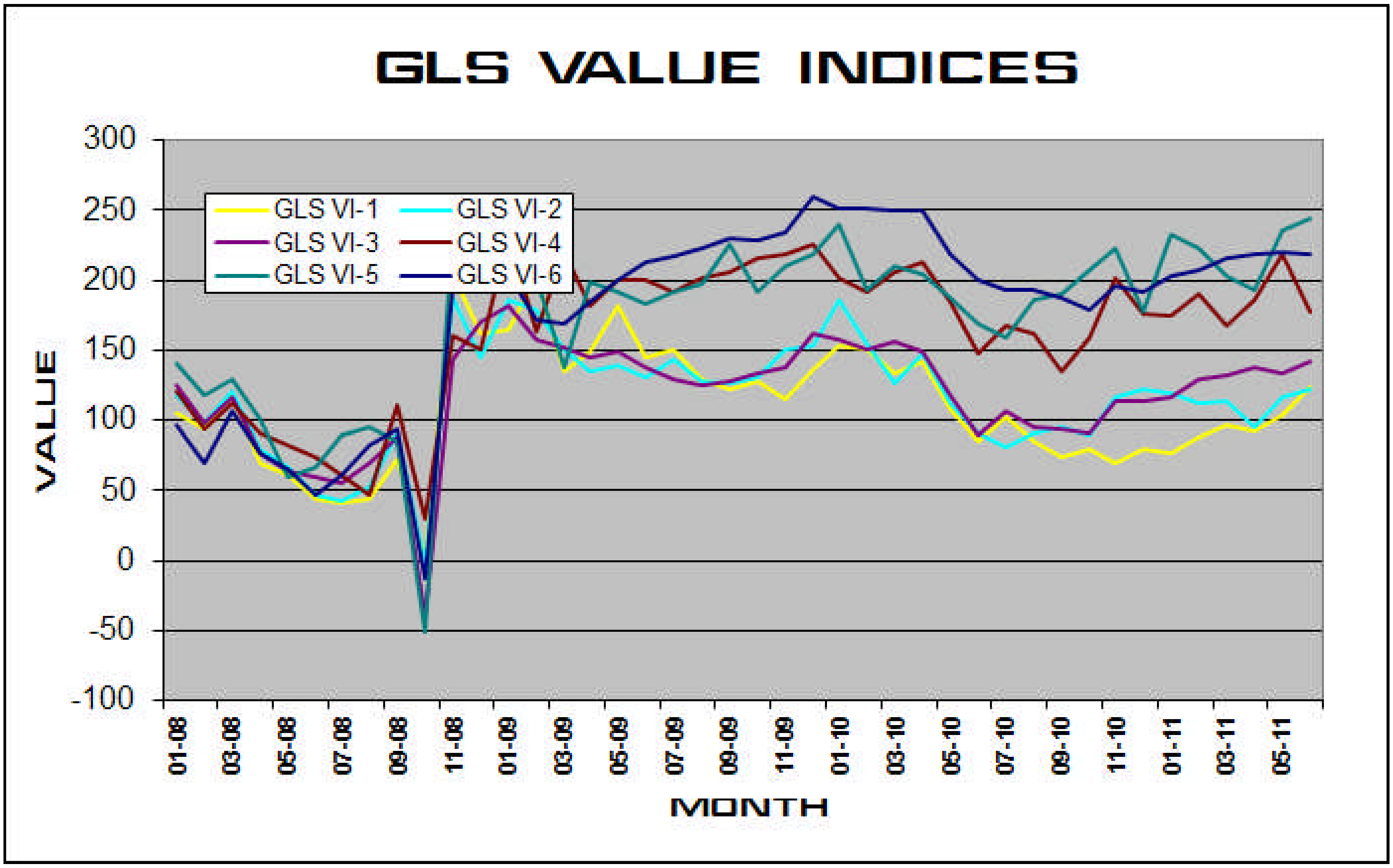
GLS Value Indices: Historical Values

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
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	0.29%	3.25%	2.96%	79.7	121.8	113.3	175.5	178.1	191.3
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
Mar-11	0.30%	3.25%	2.95%	96.8	113.5	132.3	167.8	203.4	216.0
Apr-11	0.27%	3.25%	2.98%	92.5	95.9	137.6	186.2	192.5	218.8
May-11	0.24%	3.25%	3.01%	104.3	116.1	134.3	219.2	235.1	220.2
Jun-11	0.23%	3.24%	3.01%	123.1	123.0	141.8	178.1	**243.7**	218.4

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

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



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

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%**
Apr-11	11.80%	11.75%	9.34%	5.83%	4.09%	5.21%	**6.70%**
May-11	9.52%	11.76%	5.61%	4.11%	6.39%	5.98%	**6.22%**
Jun-11	9.57%	8.08%	4.95%	4.33%	5.60%	3.82%	**4.58%**
Jul-11	12.92%	7.89%	4.37%	4.16%	6.35%	5.26%	**5.37%**
Grand Total	**10.64%**	**9.44%**	**6.46%**	**5.22%**	**5.80%**	**5.14%**	**5.87%**

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.**
Apr-11	23 Mos.	31 Mos.	33 Mos.	67 Mos.	49 Mos.	49 Mos.	**45 Mos.**
May-11	24 Mos.	32 Mos.	33 Mos.	66 Mos.	47 Mos.	49 Mos.	**44 Mos.**
Jun-11	24 Mos.	32 Mos.	32 Mos.	66 Mos.	47 Mos.	49 Mos.	**44 Mos.**
Jul-11	24 Mos.	33 Mos.	33 Mos.	67 Mos.	47 Mos.	49 Mos.	**44 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%
Apr-11	5.53%	13.80%	17.17%	7.29%	21.62%
May-11	14.98%	4.94%	12.68%	4.43%	6.04%
Jun-11	6.42%	10.83%	14.67%	8.20%	10.02%
Jul-11	8.20%	16.38%	8.80%	12.41%	20.45%
Grand Total	**8.53%**	**11.39%**	**12.95%**	**8.04%**	**15.19%**

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%
Apr-11	8.89%	8.78%	13.52%	9.57%	7.32%
May-11	4.50%	7.16%	7.62%	6.84%	3.52%
Jun-11	2.25%	7.21%	7.85%	4.76%	4.91%
Jul-11	2.88%	6.80%	4.83%	5.15%	3.35%
Grand Total	**5.02%**	**8.09%**	**9.43%**	**6.46%**	**4.96%**

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%
Apr-11	0.00%	7.38%	4.96%	2.08%	5.51%
May-11	4.45%	0.00%	14.05%	5.83%	7.33%
Jun-11	0.79%	1.51%	2.16%	17.40%	3.91%
Jul-11	0.50%	0.74%	19.78%	8.74%	6.31%
Grand Total	**1.34%**	**3.65%**	**11.43%**	**8.80%**	**5.11%**

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

YEAR-TO-DATE CPR DATA

Table 6:

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%
Apr-11	10.70%	16.95%	10.14%	9.51%	8.34%
May-11	5.71%	17.44%	17.75%	8.12%	6.48%
Jun-11	8.38%	7.41%	8.88%	11.83%	4.77%
Jul-11	13.04%	3.19%	7.54%	7.15%	8.55%
Grand Total	**5.97%**	**12.41%**	**10.69%**	**8.43%**	**8.14%**

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%
Apr-11	1.76%	2.81%	0.00%	12.38%	6.51%
May-11	0.00%	6.90%	0.00%	0.00%	4.54%
Jun-11	0.46%	0.00%	0.00%	0.00%	5.76%
Jul-11	0.00%	3.40%	0.00%	0.00%	5.14%
Grand Total	**2.52%**	**6.21%**	**7.40%**	**6.50%**	**5.29%**

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%
Apr-11	1.86%	4.97%	6.44%	8.12%	5.74%
May-11	0.72%	7.45%	7.97%	7.60%	7.04%
Jun-11	0.41%	4.62%	6.99%	4.97%	4.15%
Jul-11	1.41%	6.22%	11.75%	4.88%	5.56%
Grand Total	**1.69%**	**5.98%**	**8.24%**	**6.65%**	**5.33%**

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.

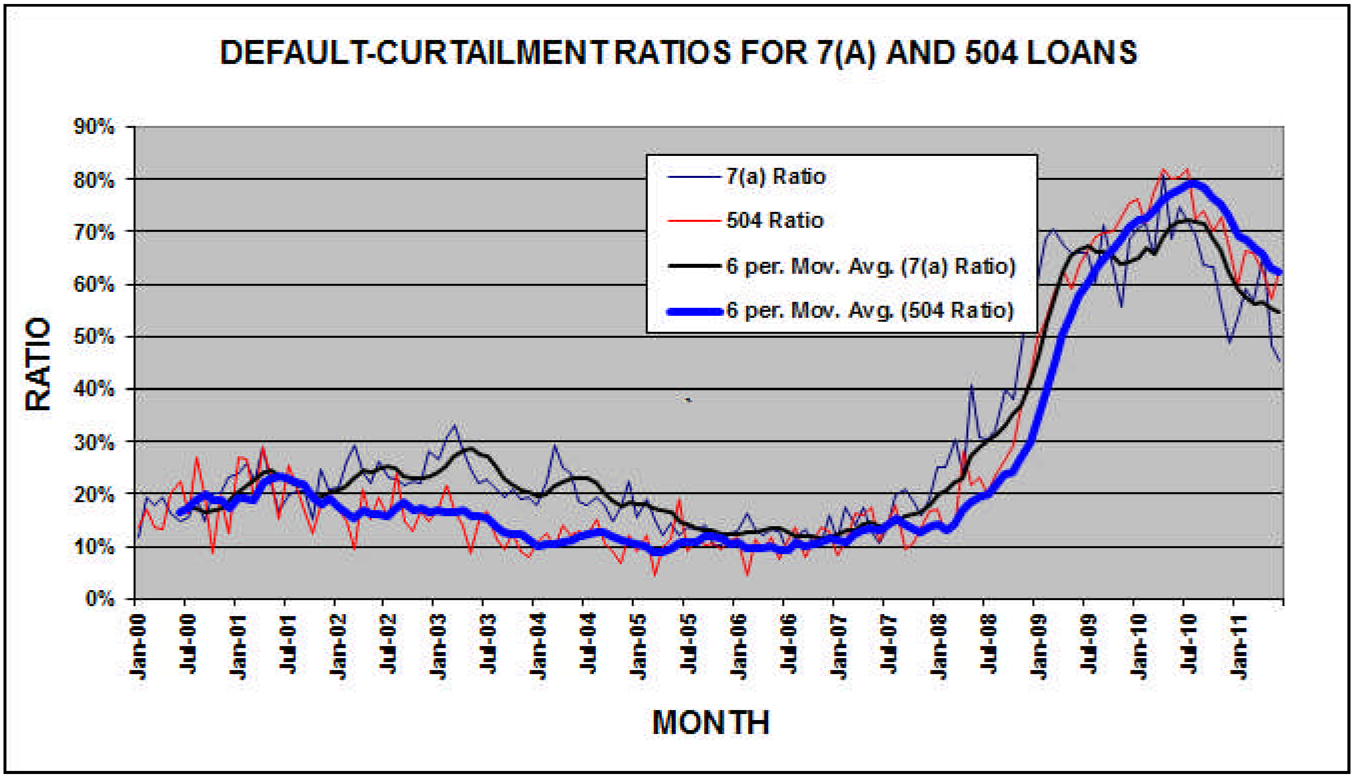
Credit Risk: Losses experienced due to the default of collateral underlying a security. Since SBA loans and pools are guaranteed by the US government, this risk is very small.

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
0%
10%
20%
30%
40%
50%
60%
70%
80%
90%
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

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www.glsolutions.us

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 ."*

Services available include:

Lenders:

- *Manage loan sales to the secondary market*
- *Process loan settlements via our electronic platform, E-Settle*
- *Third-Party servicing and non-guaranteed asset valuation*
- *Model Validation*
- *Specialized research projects*
- *Mortgage Servicing Valuation*

Loan Securitizers:

- *Manage loan settlements and pool formation*
- *Loan and IO accounting*
- *Loan, Pool and IO Mark-To-Market*
- *Specialized research projects*

Institutional Investors:

- *Loan, Pool, and IO Mark-To-Market*
- *Specialized research projects*
- *Portfolio consulting*

For additional information regarding our products and capabilities, please contact us at:
Phone: (216)456-2480 E-mail at: info@glsolutions.us web: www.glsolutions.us